Genworth

2017 ANNUAL REPORT

GROWING TOGETHER

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Genworth is a 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.

Genworth Mortgage Insurance Australia Limited
and its controlled entities
ABN 72 154 890 730

Creating a home

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.

2017
at a glance

Operational highlights

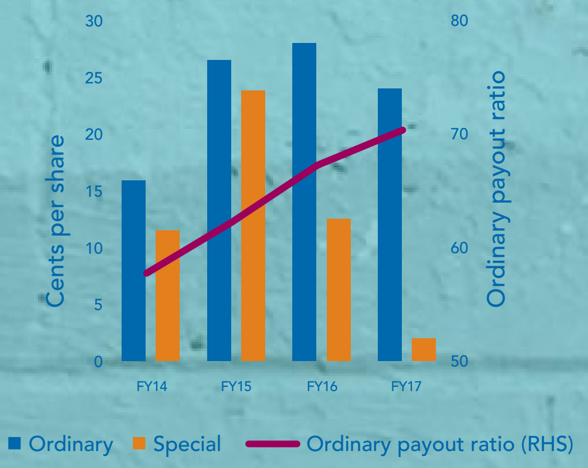
Policies in-force

over 1.4m

Policies written in 2017

69,149

Dividends (cents per share)



Market capitalisation

$1.5b

Value of insured loans

$23.9b

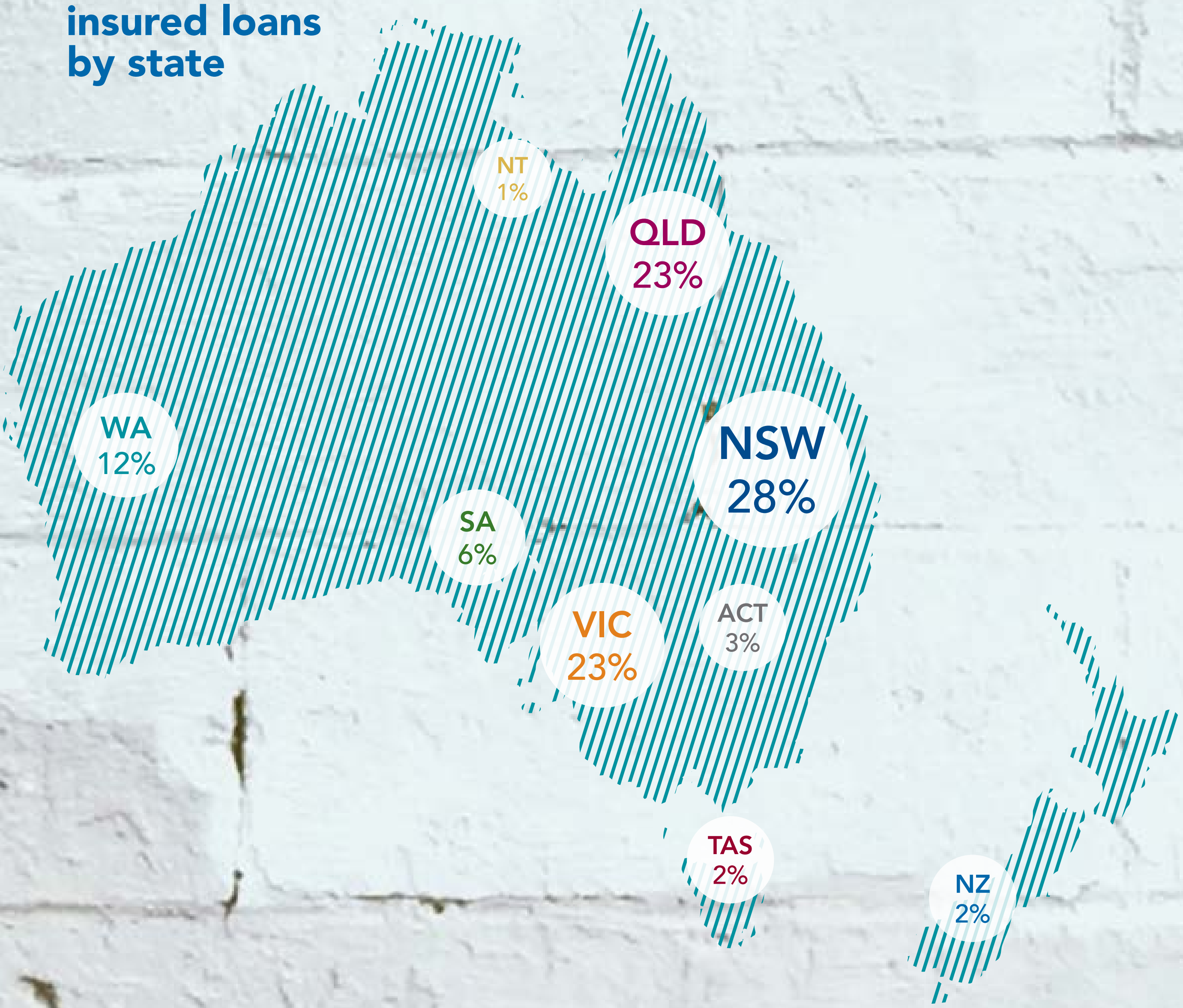
Investment portfolio

$3.4b

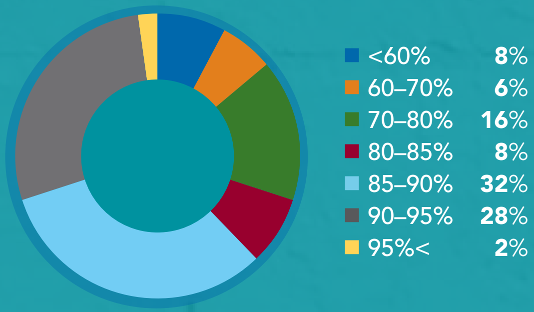
Gross written premium (GWP)

$369m

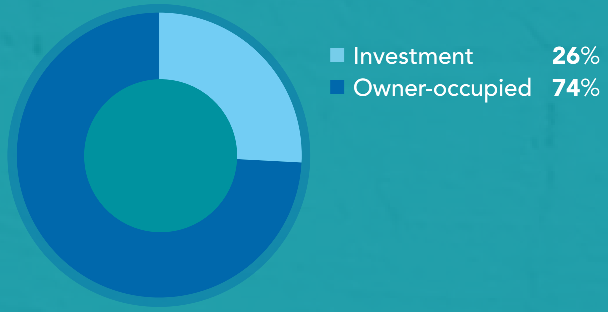
Portfolio of insured loans by state



Insurance in-force by original loan-to-value ratio



Insurance in-force by loan type



Genworth in the community

All figures as at 31 December 2017

Women in senior leadership role

38%

Genworth fundraising initiatives

$196,000

Number of volunteer events in corporate calendar

24

Total time spent on volunteering

780+ hours

Employees participating in volunteering programs

50%

Community support

Brush with kindness

Habitat for Humanity

Through a partnership with Habitat for Humanity our volunteers took a brush for kindness day, maintaining and enhancing homes and facilities that support the homeless and victims of violence. Over the year, 28 employees in Risk, IT and Strategy and Innovation were able to participate in this great initiative.

Backyard blitz

Forsight Foundation

In 2017 almost a quarter of the business, across Finance, Operations and Commercial, were able to take part in a series of backyard blitzes, making upgrades and improvements to Forsight group homes to make them compatible for the deaf, blind and wheelchair bound.

OzHarvest

Genworth's new community partner, OzHarvest is Australia's leading food rescue organisation, bridging the gap between excess food from commercial outlets and hungry and homeless Australians. A new partner, 2018 will see many opportunities for employee involvement.

St Vincent de Paul

Vinnie's provides support to people in need and combats social injustice across Australia. Genworth was able to assist in this mission through many initiatives including K.E.E.P, CEO Sleepout, Vinnie's BBQs and the Christmas Appeal.

Diversity, inclusion and recognition

	FEMALE	MALE
Board	♀♀♀	♂♂♂♂♂♂
SLT (CEO and direct reports)	♀♀♀	♂♂♂♂♂
Other management roles (excluding the SLT)	♀ x19	♂ x35
Overall	♀ x107	♂ x131

Skilled volunteering

Genworth employees use their business skills and acumen to help our community partners more effectively manage and run their operations. In 2017 members from our data management team dedicated time to assisting Vinnie's marketing department to manage and analyse data.

Vinnie's CEO Sleepout

In the thick of winter the senior leadership team (SLT) spent the night sleeping on cardboard out on the streets to raise funds and awareness for people in Australia experiencing homelessness. The overall program raised an incredible $5.6 million.

Parents@Work

Genworth was recognised as a family-friendly organisation that supports working parents by Parents@Work.

2018 HRD Innovative Team

Genworth's HR team was awarded the highly sought after Human Resources Director (HRD) Innovative Teams Award for innovations and improvements made throughout the year.

WGEA Employer of Choice for Gender Equality

Genworth was awarded Workplace Gender Equality Agency (WGEA) Employer of Choice for Gender Equality citation for the third consecutive year.

30% Club member

Genworth became a member of the 30% Club, with 30 per cent female representation on the Board. The group was formed by the Australian Institute of Company Directors committed to achieving better gender balance in organisations.

Chairman's message

Dear Shareholders

I am pleased to present to you Genworth's 2017 Annual Report. This is my second year, writing to you in the capacity of Chairman and over this period significant work has been undertaken to position Genworth as the leading provider of customer-focused capital and risk management solutions in residential mortgage markets.

We have also continued our work with lender customers, regulators and policy leaders to promote a stronger and more sustainable housing market in Australia.

Regulatory capital base

$2.1b

Fully franked ordinary dividend

24cps

Genworth strategy

Over the course of 2017, we undertook a strategic program of work designed to redefine our core business model. We recognise that lender and consumer expectations are changing in the face of technological and regulatory change. This means that as an organisation we need to be agile and to leverage our strong core competencies to develop customer-focused capital and risk management solutions that complement our market leading LMI offering.

Our management team led by Chief Executive Officer (CEO) & Managing Director Georgette Nicholas made significant progress throughout the year in leveraging Genworth's extensive local experience, global expertise and strong relationships with international reinsurers to enhance our product offerings, improve our underwriting efficiencies and where appropriate leverage our data and partnerships along the mortgage value chain.

This strategic work will continue in 2018 and is designed to deliver sustainable shareholder returns by offering customers a greater depth and breadth of customised risk and capital management tools that complement our traditional LMI offering.

Financial position

Our Company's financial position is strong. At the end of 2017, we maintained a regulatory capital base of $2.1 billion and a coverage ratio of 1.93 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 2017, our cash and investment portfolio had a market value of $3.4 billion, of which more than 86 per cent continues to be held in cash and highly rated fixed interest securities. In line with our strategy to improve investment returns on the portfolio within acceptable risk tolerances, the Company had $237.4 million invested in Australian equities as at 31 December 2017. Looking forward, the Board has approved a strategy to diversify the Company's assets by investing in non-Australian dollar fixed income securities. This will be implemented in 2018.

Capital management

The Company's capital position is actively managed, and we are continually, evaluating excess capital and its potential uses. Since listing on the Australian Stock Exchange in 2014, Genworth has distributed all of its after-tax profits by way of dividends to shareholders, as well as implemented a capital reduction program and two on-market share buy-back programs.

During the year we embarked on a number of capital management initiatives designed to bring the Company's solvency ratio more in line with the Board's target range. A total fully franked ordinary dividend of 24 cents per share was declared representing a payout ratio of 70.3 per cent up from 67.2 per cent in 2016. In addition, a fully franked special dividend of 2 cents per share was declared. The combined ordinary and special dividends for the 2017 financial year equate to an 8.7 per cent yield based on the share price ($3.00) as at 31 December 2017.

Commenced

$100m

share buy-back

Fully franked special dividend

2cps

We also commenced an on-market share buy-back up to a maximum value of $100 million. As at the end of the year, $51 million worth of shares had been acquired. Genworth intends to continue to buy-back shares in 2018, up to a maximum total value of $100 million subject to business and market conditions, the prevailing share price, market values and other considerations.

Looking ahead

Our Company has been and continues to be committed to the Australian housing market in both good times and in periods of stress. Our goal is to continue to support borrowers obtain a home by providing risk and capital solutions to our lender customers. We are also committed to helping borrowers stay in their homes through our loss mitigation services.

Our value proposition to customers remains strong. We provide capital support, reduce risk exposures and deliver underwriting and loss mitigation services that help lenders maintain quality residential lending standards.

Throughout the year we saw housing price growth moderate following regulatory measures to slow growth in investment lending and limit the flow of new interest-only lending. 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 identifying innovative solutions to address the strategic needs of our customers.

Corporate social responsibility

The Board places significant importance on corporate social responsibility. We are committed to ensuring that high corporate governance standards are upheld by the Company. Details of Genworth's corporate governance policies and practices are set out in our corporate governance statement that can be found on the Genworth website.

As part of our corporate social responsibility program, we are committed to diversity in the workplace. The Board has resolved to adopt best practice regarding Board diversity by setting a target of having 30 per cent female representation on the Board by the end of 2018. I am pleased to report that we have met that target with 33 per cent women on the Board currently.

In addition, management has set a goal of maintaining female representation of at least 38 per cent on the SLT and in striving for diversity across all leadership roles. As at 31 December 2017 33 per cent of the SLT was female and 35 per cent of other management roles were filled by females.

The WGEA has recognised our work in diversity and awarded Genworth the WGEA Employer of Choice for Gender Equality citation for the third consecutive year.

Conclusion

We believe that the risk and capital management solutions that Genworth offers its customers contribute significantly to supporting the Australian dream of homeownership and to the stability of the Australian residential property mortgage market.

Our continued success would not be possible without our SLT led by our CEO & Managing Director Georgette Nicholas and our team of employees. I would like to formally acknowledge and thank them for their efforts.

I would also like to thank my fellow directors for their contribution and commitment to Genworth's success.

Importantly I would like to thank our shareholders for their continued support and for entrusting us with stewardship of the Company.

Yours sincerely,

Ian MacDonald

Chief Executive Officer's report

The 2017 financial year was a transitional year for Genworth. We continued our track record of delivering attractive shareholder returns in the form of fully franked ordinary dividends (24 cents per share) and a fully franked special dividend (2 cents per share), completed the buy-back of $51 million worth of shares as part of our $100 million on-market share buy-back commenced in the second half of 2017, as well as commencing a strategic program of work designed to redefine our core business model (strategic program of work).

Strategic update

Our strategic program of work is continuing and focused on addressing evolving lender and consumer expectations resulting from technological and regulatory change. Our objective is to position Genworth as a leading provider of customer-focused capital and risk management solutions.

As part of this program of work we have identified a number of strategic initiatives that concentrate on improving our underwriting efficiency, enhancing our product offerings and leveraging our data and partnerships along the mortgage value chain.

One such initiative has involved the establishment of an offshore insurance entity based in Bermuda, which provides us with the capability to structure bespoke risk management solutions for portfolio cover across both high and low loan-to-value ratios. I am pleased to report that by leveraging our strong relationships in the global reinsurance market we have created a consortium and entered into an agreement with a customer to utilise this new structure to manage mortgage default risk. This bespoke solution is a complementary risk management tool to traditional LMI cover.

The second half of 2017 also saw the culmination of work we had undertaken to create and implement risk management solutions for borrower paid LMI in the less than 80 per cent loan-to-value ratio (LVR) segment on a micro market basis.

Both of these initiatives demonstrate our ability to tailor products and solutions for customers by leveraging our:

- extensive local experience in managing mortgage credit default risk;
- global expertise; and
- strong relationships with international risk and capital markets.

These core competencies enable us to offer customers a greater depth and breadth of tailored risk and capital management tools that complement our traditional LMI offering.

Over the course of 2018 we will continue to engage with other existing and potential lender customers regarding the provision of capital and risk management solutions, in addition to actively pursuing new agreements that meet our risk appetite and return on equity (ROE) profile.

We will also continue to roll-out other strategic initiatives designed to deliver sustainable shareholder returns, that we have identified as part of our strategic program of work.

Financial performance

Our 2017 financial results reflect the impact in the fourth quarter of our annual premium earning pattern review which we announced to the market on 15 December 2017 (2017 earnings curve review). This review resulted in a modification of our premium earning pattern, specifically a lengthening of the average duration of the period over which we recognise our revenue by approximately 12 months. The revised earning pattern has been applied to the 4Q17 and subsequent periods. Whilst it does not affect the total amount of revenue expected to be earned over time from premiums already written, it did delay our recognition of net earned premium (NEP) in 4Q17 and will impact the NEP recognition in future years.

Our underlying net profit after tax (excluding mark-to-market movements in the investment portfolio) in 2017 was $171.1 million, down 19.4 per cent compared to 2016.

Market dynamics continued to be challenging during the year with reduced high LVR lending as a proportion of total mortgage originations. In response to these trends, new insurance written (NIW) declined 10.2% to $23.9 billion and gross written premium (GWP) was down 3.4 per cent at $369.0 million. This decline reflects changes in our customer portfolio during the year, changes in business mix and the impact of the premium rate actions taken in 2016.

Total revenue, as measured by NEP, fell 18.2 per cent to $370.5 million, reflecting the $37.3 million impact of the 2017 earnings curve review and lower earned premium from current and prior book years. Without the 2017 earnings curve review adjustment NEP would have declined 10.0 per cent.

During the year new delinquencies decreased in both mining and non-mining areas. We saw the mix of new mining delinquencies shift, with Western Australia continuing to increase whereas in Queensland the mining experience has been quite stable. Cures increased during the year, particularly in non-mining areas, however the number of claims paid was higher due to a higher proportion of claims in mining areas.

Our net claims incurred fell 10.7 per cent from $158.8 million in 2016 to $141.8 million in 2017. Our loss ratio in 2017 was 38.3 per cent, up from 35.1 per cent in 2016 reflecting the impact of lower NEP due to the 2017 earnings curve review. Without this adjustment our 2017 loss ratio would have been 34.8 per cent.

Our expense ratio for the year was 29.3 per cent compared with 25.7 per cent in the prior year reflecting lower NEP and expenditure on our strategic program of work. This is in line with our anticipated target range of between 28 and 30 per cent.

Investment income for the 2017 financial year was $103.3 million and included a pre-tax realised gain of $36.4 million ($25.5 million after tax) and a mark-to-market loss of $31.3 million ($21.9 million after-tax).

After adjusting for the mark-to-market movements, the 2017 investment return was 2.82 per cent per annum, down from 3.41 per cent per annum in 2016.

Capital management

Since listing, a key focus for us has been ensuring we have an optimal capital structure. Over that time, we have paid out all after tax profits to shareholders and returned more than $1 billion, or $2 per share, to shareholders via ordinary and special dividends and other capital management initiatives such as buy-backs and capital reductions.

Our capital management philosophy has not changed and during 2017 we embarked on a number of capital management initiatives including:

- declaration of a total fully franked ordinary dividend of 24 cents per share;
- declaration of a fully franked special dividend of 2 cents per share; and
- commencement of an on-market share buy-back up to a maximum value of $100 million.

Looking ahead, we will continue to actively manage our capital position with a view to ensuring that our capital base meets our objectives of balancing policyholder obligations, delivering long-term shareholder returns and having flexibility to grow the business in the future.

Customers

Genworth has commercial relationships with over 100 lender customers across Australia and supply and service contracts with 10 of its key customers. Our top three customers accounted for approximately 60 per cent of our total NIW and 72.7 per cent of GWP in 2017. We estimate that we had approximately 25 per cent of the Australian LMI market by NIW in 2017.

On 10 March 2017 we announced that the exclusivity agreement for the provision of LMI with our second largest customer would terminate in April 2017. We have been successful in entering into new business with this customer that assists them in managing mortgage default risk through alternative insurance arrangements.

On 20 September 2017 we announced that we had extended our supply and service contract with National Australia Bank (NAB) for the provision of LMI for NAB's broker business. The term of the contract has been extended for one year to 20 November 2018.

Ratings

Genworth's credit ratings reflect the financial strength of our Company and demonstrate to stakeholders our claim paying ability. On 19 March 2017 Standard & Poor's Ratings Services (S&P) reaffirmed Genworth Financial Mortgage Insurance Pty Limited's financial strength rating at 'A+' however revised its outlook from 'stable' to 'negative'.

On 13 September 2017, Fitch Ratings reaffirmed Genworth Financial Mortgage Insurance Pty Limited's financial strength rating at 'A+' and outlook 'stable'.

Regulatory environment

Genworth is committed to working with policymakers, ratings agencies and other industry participants to promote legislative and regulatory policies that support home ownership and continued responsible credit growth.

During 2017, we continued to work with APRA to identify and recommend policy solutions that would set suitable capital requirements for the residential mortgage industry. Genworth is leading industry efforts to educate policymakers about the importance of LMI to the Australian mortgage market and ensuring the wider financial system remains stable. In particular, we are focused on educating regulators and policymakers about the value of our risk and capital management solutions as a loss absorption and capital 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 2017 Genworth donated $150,000 to its three community partners: St Vincent de Paul Society, The Forsight Foundation and Habitat for Humanity Australia. Genworth also continued its "milestone anniversary donation"program throughout the year. Pursuant to this program our Company makes a $1000 donation to a registered charity selected by an employee celebrating their 10, 15 or 20 year anniversary with Genworth.

In addition to our corporate charitable donations we have also established a number of staff volunteering and donation programs for our employees. These include "workplace giving", "make-a-difference day" and a new addition in 2017, "employee sponsored donations". During the year more than 50 per cent of our employees participated in volunteering programs with our community partners, contributing 780 hours to programs such as Habitat for Humanity's "brush with kindness", the Forsight Foundation's "backyard blitz" and programs run by St. Vincent de Paul for the homeless.

We will continue to focus on our ongoing social responsibility in the year ahead.

Diversity and inclusion

Our commitment to corporate social responsibility extends to diversity and inclusion in the workplace. We recognise that people are at the heart of what we do and our people reflect the diversity of our customers and the communities they serve.

We value the contribution that people with different backgrounds, experience and perspectives bring to our organisation. This is reflected in our strong support of flexible and inclusive work practices across the organisation. As mentioned in our Chairman's letter our work in this regard has been recognised by the WGEA which has awarded Genworth the WGEA Employer of Choice for Gender Equality citation for the third consecutive year.

2018 outlook

The economic outlook for 2018 is expected to be relatively similar to 2017, with growth remaining below long-term trend.

Housing market conditions are expected to ease as macro-prudential measures continue to take effect and record levels of new housing supply comes onto the market.

In terms of our financial performance in 2018 we expect GWP to increase reflecting the premium written pursuant to our new customised risk management solution and our micro markets LMI arrangements.

NEP and the full year loss ratio however are expected to be adversely impacted by the 2017 earnings curve review. We expect NEP to decline by approximately 25 to 30 per cent and net incurred claims to be lower in 2018 than in 2017. Despite this, the full year loss ratio is expected to be between 40 and 50 per cent.

The Board continues to target an ordinary dividend pay-out ratio range of 50 to 80 per cent of underlying NPAT.

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

Conclusion

2018 will be a transitionary year for our business as we implement strategic initiatives designed to redefine our core business model.

Our strategy is designed to enhance our existing LMI business by leveraging our core competencies and offering a broader suite of complementary capital and risk management solutions for customers.

Our objective is to position Genworth as a leading provider of customer-focused capital and risk management solutions.

We have a resilient business and our Company is well capitalised and has a solid track record of delivering strong profits and attractive shareholder returns. This continues to be an integral objective of our strategy going forward.

Thank you

I would like to thank the Chairman and my fellow directors for their ongoing support during 2017. To all our Genworth people, thank you for your hard work and commitment throughout the year.

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

Yours sincerely,

Georgette C. Nicholas

Georgette Nicholas

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 2017 and the auditor’s report thereon.

Board of Directors

The directors of the Company as at 31 December 2017 were as follows:

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 (COO) 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. Ian is also a member of the 30% Club, a group formed by the Australian Institute of Company Directors who are committed to achieving better gender balance on Boards and in organisations.

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 and Chief Executive Officer, Genworth Financial designee

Georgette was appointed Managing Director on 30 May 2016.

Georgette became CEO in February 2016 after four months as Acting CEO following joining the business as Chief Financial Officer (CFO) 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 CFO, 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 (SVP), Investor Relations, Public Relations and Rating Agencies with Genworth Financial Inc. Other senior roles she has held at Genworth include CFO, 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 global financial crisis, and Global Controller for both US Mortgage Insurance and International Segments.

Before joining Genworth in 2005, Georgette was a Director at Deloitte 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 Technology 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 (MFAA).

Gai McGrath

Director, Independent

Gai was appointed to the Board on 31 August 2016. She is Chairman of the Audit Committee and a member of the Risk Committee, Remuneration & Nominations Committee and Technology 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, Landcom, Investa Listed Funds Management Limited as responsible entity of Investa Office Fund (since 17 October 2017) 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, a member of the Fundraising and Appeals Committee of The Salvation Army and a member of the Advisory Committee of Humanitix.

Gayle Tollifson

Director, Independent

Gayle was appointed to the Board on 20 February 2012. She is Chairman of the Risk Committee and a member of the Audit Committee, Capital & Investment Committee and Remuneration & Nominations 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 (CRO) 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, RAA Insurance Holdings Limited and RAA Insurance 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 Technology Committee and a member of the 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 Group including various senior executive roles from 2003–2007 and was the CEO of Suncorp Bank 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 the Chairman of Thorn Group Limited (Chairman since 1 February 2018, director since 1 November 2014), and a director of 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.

Stuart Take

Director, Genworth Financial designee

Stuart was appointed to the Board on 20 February 2012. He is a member of the Risk Committee.

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, Risk Committee, Capital & Investment Committee and the Technology Committee.

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

Previously, Jerome was the SVP and COO Genworth Financial International Mortgage Insurance from 2009. Prior to this Jerome has had a variety of roles at Genworth including SVP 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 was formerly a Certified Public Accountant and the Controller and Director of Financial Reporting for Century American Insurance Company in Durham, North Carolina.

Corporate governance statement

The corporate governance statement is available on the Genworth website. Please visit investor.genworth.com.au/investor-centre/

Senior leadership team

Georgette Nicholas

Chief Executive Officer

Georgette became CEO in February 2016 after four months as Acting CEO following joining the business as CFO 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 CFO, 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 SVP, Investor Relations, Public Relations and Rating Agencies with Genworth Financial Inc. Other senior roles she has held at Genworth include CFO, 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 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.

William Milner

Acting Chief Financial Officer

William joined Genworth as Director, Capital & Reinsurance in April 2015 and was appointed Acting Chief Financial Officer (CFO) on 16 February 2018.

He has over 20 years of experience in the insurance and financial services sector having worked across finance, capital management, reinsurance, actuarial, investments, treasury, risk-based capital and product pricing.

Prior to joining Genworth, William was the CFO of General Insurance (Australia and New Zealand) at Zurich Financial Services Australia for over three years. He joined Zurich head office in Switzerland in 2004 covering the worldwide balance sheets of the Zurich Insurance Group before transferring to the Australian and New Zealand operations in 2008 working across a number of roles including capital management, treasury and investments. Before joining Zurich, William spent 10 years at AMP with positions in Brisbane, Sydney and London working across pricing, risk, capital management and superannuation.

William has extensive experience dealing with APRA, ratings agencies, regulators (in Australia, UK, Ireland, Switzerland, HK and Bermuda), Insurance Council of Australia and the Australian Tax Office.

William has a Bachelor of Science, Physics and Maths and a Bachelor of Arts in Statistics and Economics from University of Queensland. He is a fellow of the Institute of Actuaries of Australia.

Andrew Cormack

Chief Risk Officer

Andy joined Genworth Australia as Chief Risk Officer (CRO) 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 CRO 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 COO 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 data management office and the Technology team.

Before joining Genworth, Tobin had 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.

Steven Degetto

Chief Commercial Officer

Steven joined Genworth as Chief Commercial Officer (CCO) in July 2017. He has over 20 years' experience in financial services and over 15 years in the intermediary channel. Steven brings extensive business development leadership and experience to Genworth as well as strong commercial acumen and an unwavering customer focus.

Prior to joining Genworth, Steven was Head of Bank Intermediaries with the Suncorp Group where he managed all intermediary relationships across Australia supporting over 14,000 mortgage brokers in the provision of Suncorp Group products and services. Most recently he was Head of Wealth and Life Intermediaries at Suncorp and led the sales and retention strategy across the life insurance and wealth management businesses. Steven has also held various leadership roles within financial services at both Macquarie Group and Commonwealth Bank of Australia.

Steve holds a Bachelor of Business from the University of Tasmania, a Graduate Diploma of Applied Finance and Investment and an Advanced Diploma in Financial Planning. He is a Fellow of both the MFAA and FINSIA.

Kate Svoboda

Chief Human Resources Officer

Kate was appointed as Chief Human Resources Officer (CHRO) in September 2016 after six months as Acting CHRO. Kate joined Genworth as Human Resources (HR) Director in 2015. Kate brings to the role more than 17 years professional experience working in human resources, the majority of which has been in financial services.

Kate is responsible for leading organisational design and effectiveness, culture and engagement, 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 an MBA from University of New England and a Bachelor of Speech Pathology from 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.

Scot Garner

Head of Strategy & Innovation

Scot commenced in the role of Head of Strategy & Innovation at Genworth in January 2017.

Scot has more than 20 years' executive experience in strategic planning, new product and business development, financial management and transaction execution across multiple countries and industries. Before joining Genworth in Australia, Scot was the CFO and Director of Genworth's mortgage insurance businesses in Europe and Mexico where he was responsible for the development and implementation of strategic growth and capital initiatives for those businesses. Prior to that he worked on a number of Genworth's country development and platform launches including India, Mexico and South Korea through the establishment of subsidiaries and joint venture partnerships. Prior to his time at Genworth, Scot worked in the energy industry as an M&A consultant and asset manager.

Scot holds an MBA and a Bachelor of Science degree in Mathematical Economics from Wake Forest University.

Principal activity

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

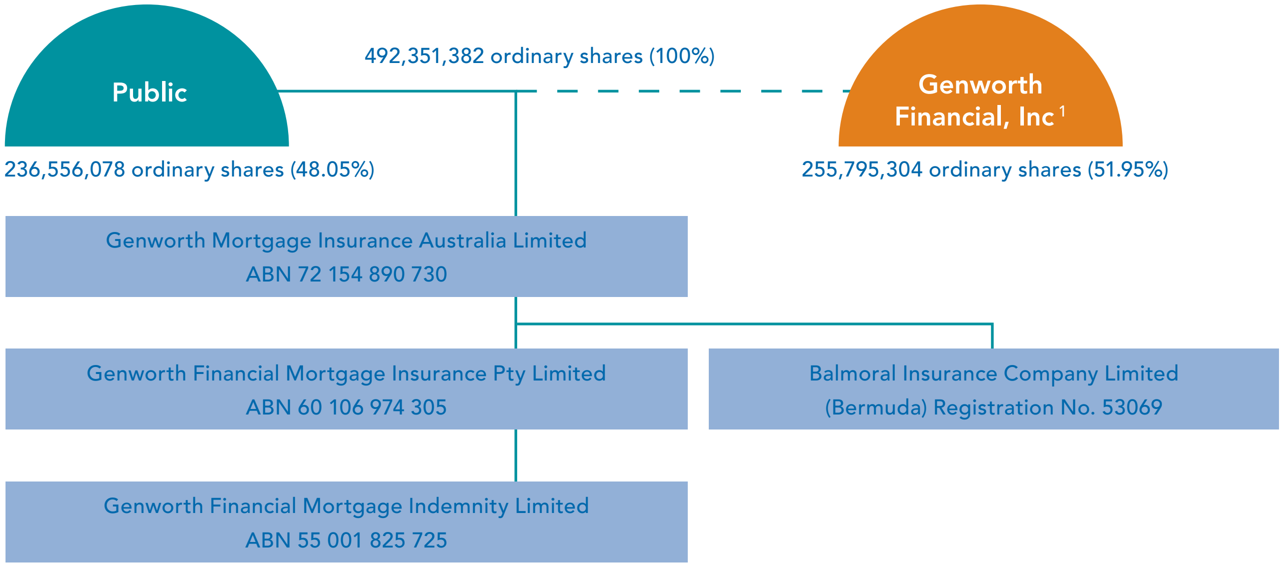
Organisation overview

About Genworth

Genworth is the leading LMI provider in the Australian LMI market. The Group estimates that it had approximately 25 per cent of the Australian LMI market by NIW for the 12 months ended 31 December 2017. Genworth is listed on the ASX under ticker code GMA.

During 2H17, the Group undertook an on-market share buy-back program. 17.0 million shares were purchased and subsequently cancelled for a total consideration of $50.9 million. Genworth Financial, Inc. participated in on-market sale transactions during the buy-back program to maintain its approximately 52 per cent stake in the Group. As at 31 December 2017, the number of Genworth shares on issue was 492.4 million.

The Group has the following corporate structure as at 31 December 2017:



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

In 2017 the Group de-registered six wholly-owned non-operating companies to simplify the Group's corporate structure. The actions taken do not impact any operational capabilities of the Group's insurance subsidiaries but will provide for more efficient administration.

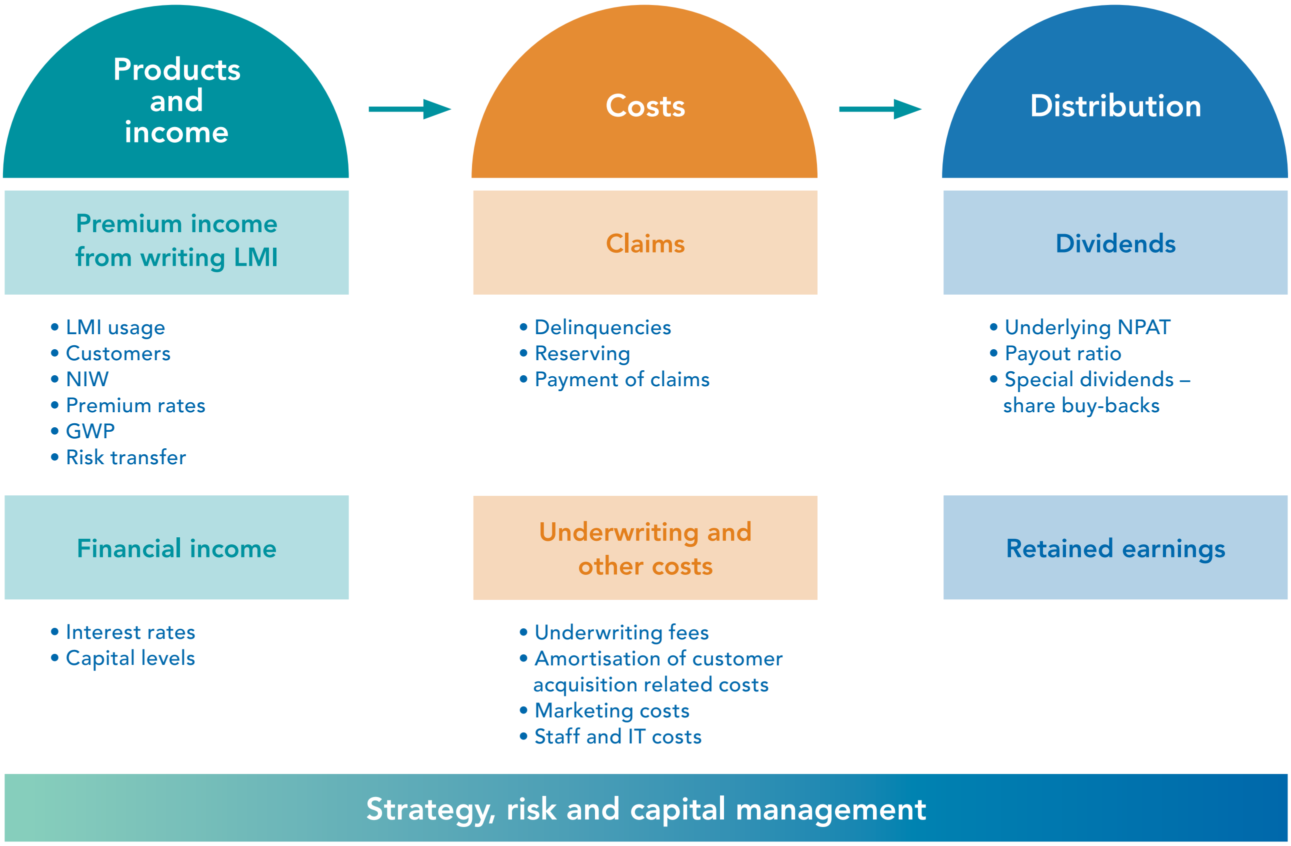
In 2017 the Company established an offshore entity in Bermuda, called Balmoral Insurance Company Limited. This entity has been utilised to write new excess of loss cover for bulk portfolios across both high and low LVRs.

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.

Genworth shareholder value chain



Products and customers

The Group continued to offer three LMI products in 2017, being Standard LMI, Homebuyer Plus and Business Select/Low Doc. In FY17, Standard LMI produced 99 per cent of total GWP.

The Group underwrites LMI through flow and portfolio channels. In FY17, 98 per cent of GWP was generated from the flow channel.

During 2017, 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 2017, Genworth's top three customers accounted for 60 per cent of its NIW and 73 per cent of its GWP. The largest customer accounted for 43 per cent of its NIW and 53 per cent of its GWP in FY17, as illustrated below.

Lender customer	FY17 NIW	FY17 GWP
Lender customer 1	43%	53%
Lender customer 2	14%	15%
Lender customer 3	3%	5%
Lender customers 4–10	33%	18%
All other lender customers	7%	9%

Our strategy

Genworth's primary business activity is the provision of LMI to our lender customers. Our mission is to support Australian homeownership by providing capital and risk management solutions to our customers in residential mortgage lending. In 2017 we made significant progress toward our goal to reinvigorate profitable growth.

2018 priorities

In 2018 we will deliver core capabilities in underwriting efficiencies, product flexibility and expense management – capabilities which are foundational to meeting the changing needs of our Australia-based customers and to future growth.

A refined strategic plan to re-ignite profitable growth over the medium-term

Value proposition:

Innovation and technology will underpin Genworth's value proposition.

Focus:

To be a leading provider of customer-focused capital and risk management solutions in residential mortgage markets and deliver sustainable shareholder returns.

Immediate and ongoing initiatives (2017–2018)

1. Redefine core business model

- Cost efficiency
- Underwriting efficiency
- Product enhancement
- Leverage data and partnerships
- Regulator and policy maker advocacy

Longer-term initiatives (2019+)

2. Leverage data and technology to add value across the mortgage value chain

- Product innovation
- Loss management solutions
- Leverage high LVR experience and expertise

Strategic enablers

- People, organisation and cultural change
- Data and analytics
- Technology
- Stakeholder management

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
Evolving LMI and mortgage default risk landscape Evolving market for mortgage default risk solutions may result in a reduction in new insurance written.	• Strategic investment in core foundational capabilities. • Products and services designed to enhance the Genworth value proposition in the market. • Active responses to customer needs through working collaboratively with customers on products such as excess of loss cover and micro market opportunities. • Work with regulators and the industry to recognise LMI in risk and capital models.
Changing customer dynamics Lenders increasingly searching for diverse risk and capital management solutions.	• Customer plans are in place to monitor the execution of priority areas and key activities of key customers. • Genworth's product suite includes both standard and non-standard product LMI offerings and excess of loss coverage options. • Regularly reviews its pricing and value proposition in the market to ensure it remains competitive and responsive to market needs.
Adverse or neutral regulatory changes have the potential to impact Genworth's business model and medium-term profitability Adverse regulation may impact Genworth's business model and/or profitability.	• Forward-looking government relations plan. • Active regulatory engagement strategy, working closely with government, regulators and the industry to address actual and expected legislative and regulatory changes. • Ongoing monitoring of the regulatory environment and changes that may impact Genworth's business.

Key risk	Key control/mitigation
Macroeconomic deterioration and potential deterioration in financial and capital performance of Genworth A deterioration in macroeconomic conditions or outlook may result in a flow on impact to the financial and capital profile of Genworth.	• Product, location and segment risk responses. • Mature reserving and loss forecasting processes. • The Genworth Board and executive regularly review the risk appetite statement and responses to the macroeconomic environment. • Genworth maintains a recovery plan to guide and facilitate its responses to a macroeconomic stress event.
Changes in financial strength ratings Genworth's financial strength rating may be downgraded.	• Genworth maintains a strong working relationship with rating agencies. • Genworth's recovery plan guides and facilitates its responses to a 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.	• Active reinsurance management strategy. • Active management of the reinsurance program. • Ability to leverage external reinsurance experience.
Risks related to supply and service contracts with customers Termination before the expiry of the contractual term or a change of control of a customer or a ratings downgrade may result in loss or partial loss of a customer.	• Customer contract renewal and extension process, a contractual avenue to address any improvements required. • Genworth's recovery plan guides and facilitates responses to a 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.

Operating and financial review

Operating result for the financial year

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

Financial performance measures (A$ million)	FY17	FY16
Gross earned premium	**438.2**	524.7
Net earned premium	**370.5**	452.9
NPAT	**149.2**	203.1
Underlying NPAT[1]	**171.1**	212.2

Non-IFRS performance metrics	FY17	FY16
Loss ratio[2] (%)	**38.3%**	35.1%
Expense ratio[3] (%)	**29.3%**	25.7%
Combined ratio[4] (%)	**67.5%**	60.8%
Insurance margin[5] (%)	**40.0%**	48.1%
Investment return[6] (%)	**2.8%**	3.4%
ROE[7] (%)	**7.7%**	9.7%
Underlying ROE[8] (%)	**9.0%**	10.4%

The underwriting performance in FY17 reflects:

(a) GWP declined 3.4 per cent due to a number of factors including changes in the customer portfolio, changes in business mix and the impact of the premium rate actions taken in 2016;

(b) NEP decreased 18.2 per cent reflecting the adverse impact of $37.3 million from change in earnings curve and lower earned premium from current and prior book years;

(c) The loss ratio increased by 3.2 per cent reflecting lower net earned premium in the current year;

(d) The expense ratio increased from 25.7 per cent in FY16 to 29.3 per cent in FY17 reflecting lower net earned premium in the current year, slightly offset by lower other underwriting expenses;

(e) The insurance margin decreased to 40.0 per cent compared to 48.1 per cent for FY16 mainly driven by unfavourable mark to market movements of the investment portfolio.

[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 (NEP).

[3] The expense ratio is calculated by dividing the sum of the acquisition costs and the other underwriting expenses by the NEP.

[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 NEP.

[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.

Review of financial condition

Financial position

Financial position (A$ million)	31 Dec 17	31 Dec 16
Cash and investments	3,391.5	3,522.6
Deferred acquisition costs	151.8	142.0
Total assets	**3,765.9**	**3,835.6**
Trade and other payables	31.7	37.1
Outstanding claims reserve	339.7	355.5
Unearned premium	1,108.6	1,177.8
Interest bearing liabilities	197.0	196.0
Total liabilities	**1,843.7**	**1,868.2**
Net assets	**1,922.2**	**1,967.4**

The total assets of the Group as at 31 December 2017 were $3,765.9 million compared to $3,835.6 million at 31 December 2016. Movements within the overall decrease of $69.7 million include:

- a decrease in investments and cash of $131.1 million from funds outflow associated with 2016 final dividend and 2017 interim dividend and the $50.9 million on-market share buy-back; and
- an increase in deferred reinsurance expense of $65.3 million as a result of increase in future reinsurance costs from treaty renewals and the commencement of new treaties.

The total liabilities of the Group as at 31 December 2017 were $1,843.7 million compared to $1,868.2 million at 31 December 2016. The decrease in liabilities of $24.5 million is mainly attributable to the net effect of:

- an increase in reinsurance payable of $64.7 million as a result of increase in future reinsurance costs from treaty renewals and the commencement of new treaties;
- a decrease in unearned premium liability of $69.2 million resulted from lower new premium written in 2017 and seasoning of prior years' in-force premium partially offset by the impact of $37.3 million from the adverse change in earnings curve; and
- a decrease in the outstanding claims liability of $15.9 million primarily due to reserve releases from higher number of claims paid.

The Group's equity decreased from $1,967.4 million at 31 December 2016 to $1,922.2 million at 31 December 2017, mainly attributable to:

- payment of the 2016 final and 2017 interim dividends totaling $142.6 million;
- reduction in share capital following the on-market share buy-back totaling $50.9 million; and
- a sound earnings performance in the current year resulting in a net profit after tax (NPAT) of $149.2 million.

Investments

The Group's cash and investment portfolio totalled $3.4 billion as at 31 December 2017 with 86 per cent in Australian denominated cash, cash equivalents and fixed income securities rated A- or higher. The decrease in total investments since 31 December 2016 ($3.5 billion) is mainly attributable to:

- reduction in investments due to dividend payments ($142.6 million) and the on-market share buy-back ($50.9 million) during the year.

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 2017, the Group's capital mix was:

- Ordinary equity (net of goodwill and intangibles) 90.7 per cent
- Debt 9.3 per cent

Capital management

The Group remains strongly capitalised at 31 December 2017 with regulatory capital of $2,092 million at 31 December 2017 (2016: $2,213 million). The Group has the solvency position of 1.93 times the Prescribed Capital Amount (PCA) which continues to be above the Board's targeted solvency range of 1.32–1.44 times the PCA. The Common Equity Tier 1 (CET1) ratio is 1.74 times the PCA.

The table below illustrates the actual capital position as at 31 December 2017 compared with the capital position as at 31 December 2016.

PCA coverage ratio (Level 2)

(A$ in millions), as at	**31 Dec 17**	**31 Dec 16**
Common Equity Tier 1 Capital (incl. excess technical provisions)	1,892.4	2,012.8
Tier 2 Capital	200.0	200.0
Regulatory capital base	2,092.4	**2,212.8**
LMI concentration risk charge (LMICRC)	761.4	1,095.3
Asset risk charge	137.6	111.0
Insurance risk charge	221.7	229.8
Operational risk charge	28.0	30.0
Aggregation benefit	(62.1)	(52.2)
PCA	**1,086.7**	**1,413.9**
PCA coverage ratio (times)	**1.93x**	**1.57x**

The decrease in CET1 capital in FY17 mainly reflects the $143 million dividends paid in the year, the $50.9 million on-market share buy-back and a $76.2 million decrease in the excess technical provisions, partially offset by $149.2 million reported NPAT.

Dividends

Details of the dividends paid or determined 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.

Market capitalisation

The market capitalisation of the Company as at 31 December 2017 was $1.48 billion based on the closing share price of $3.00

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 7 February 2018, the Directors declared a 100 per cent franked final dividend of 12 cents per share totalling $59.1 million.

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.

Full year 2017 outlook

The Australian economy performed relatively well throughout 2017 with positive economic growth, an improving labour market and a lift in business investment. Victoria and New South Wales continued to perform well due to solid labour markets and property price appreciation, although a slowdown in the New South Wales property market was noted in the last quarter of 2017. Queensland and Western Australia continued to experience the flow on impacts of the slowdown in the resources sector.

The economic outlook for 2018 is expected to be relatively similar to 2017, with growth remaining below long-term trend. Domestic demand growth will be driven by business and government investment, particularly infrastructure spending. Residential dwelling construction activity is likely to ease due to cooling housing market conditions.

Labour market growth is expected to continue into 2018, albeit at a more moderate pace than in 2017.

The official cash rate is likely to remain on hold throughout most of 2018 due to ongoing benign wage growth and inflation remaining below the Reserve Bank of Australia's (RBA) 2 to 3 per cent target band.

Housing market conditions are expected to ease further in 2018 as macro-prudential measures continue to take effect and record levels of new housing supply comes onto the market. Metropolitan housing markets in Sydney and Melbourne are expected to moderate in 2018 and regional housing markets, particularly within resource states, are expected to face continued pressure, albeit to a lesser extent than experienced in 2017. Genworth expects national housing prices to be flat in 2018.

Genworth expects GWP to increase in 2018 reflecting the premium written pursuant to the new customised risk management solution and micro markets LMI.

NEP and the full year loss ratio are expected to be adversely impacted by the 2017 earnings curve review. NEP is expected to decline by approximately 25 to 30 per cent. Despite an expectation that Net Incurred Claims will be lower in 2018 than in 2017, the full year loss ratio is expected to be between 40 to 50 per cent. The 2017 Earnings Curve Review will not affect the total amount of revenue expected to be earned over time from the premiums already written.

Genworth continues to target an ordinary dividend payout ratio range of 50 to 80 per cent of underlying NPAT.

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

Company Secretary

Prudence Milne

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 and 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

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 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 & Nomination Committee meetings		Technology Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B
Georgette Nicholas	9	9	–	–	–	–	–	–	–	–	–	–
Ian MacDonald	9	9	–	–	–	–	–	–	–	–	–	–
Anthony Gill	9	9	6	6	5	5	6	6	3	3	3	3
Gayle Tollifson	9	9	6	6	5	5	6	6	–	–	–	–
Jerome Upton	8	9	6	6	4	4	6	6	–	–	3	3
Stuart Take	9	9	–	–	4	4	–	–	–	–	–	–
Leon Roday	9	9	–	–	–	–	–	–	5	5	–	–
David Foster	9	9	2	2	1	1	6	6	5	5	3	3
Gai McGrath	9	9	6	6	5	5	1	1	5	5	3	3

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 2017 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 2018. 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 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 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.

Non-audit services

The directors are satisfied that the provision of non-audit services during the year by the auditor $13,500, is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 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:

	2017 $
Audit and review of financial statements	747,541
Regulatory audit services	81,721
Non-assurance services	13,500
Total paid/payable to KPMG	842,762

Remuneration report

Dear Shareholder,

On behalf of your Board, I am pleased to present our annual remuneration report for the year ended 31 December 2017, and my second as Chairman of the Remuneration & Nominations Committee. The Board and Committee remain committed to delivering remuneration through a combination of cash and shares via both short-term and long-term incentive programs which:

1. drive alignment between management and shareholders;
2. provide a clear link between performance and remuneration outcomes;
3. ensure remuneration outcomes are aligned with Genworth's short and long-term objectives; and
4. recognise the importance of executing on the company's strategy to transform the business model and deliver a sustainable future for the company.

Genworth is a business in transition. We are undertaking a Strategic Program of Work aimed at identifying and delivering a broader range of risk and capital solutions for our clients. At the same time, we continue to identify opportunities for further efficiency and productivity within our traditional flow business. The execution of this strategic program of work has progressed well in 2017 with continued progress on improving our underwriting efficiency, enhancing our product offerings, delivering on-going cost reductions and progressing other enhancements to portfolio performance.

Within this context, Genworth delivered financial performance in-line with our guidance for 2017, despite facing a number of challenging market dynamics. We maintained strong dividend payouts, executed capital actions and delivered NPAT ($171 million) and underlying ROE (8.9 per cent) that exceeded external analyst forecasts following the release of our FY16 results. At the same time, the Board has acknowledged the challenges currently facing the business and have worked to deliver remuneration outcomes for 2017 that provide an appropriate balance for both participants and shareholders:

- Fixed remuneration increases for executive key management personnel (KMP) averaged 1.3 per cent for 2018;
- 2017 short-term incentive (STI) funding was determined to be 101 per cent of target (Section 3.2);
- The 2015 long-term incentive (LTI) grant will partially vest in early 2019 (Section 3.3).

Throughout 2017, a review of our reward framework was undertaken with support of external advisors. As part of the review, the Board actively considered the structure of the existing LTI plan to ensure that the outcomes appropriately reward management for the value created for shareholders, with due regard for prudent risk management and governance. The outcome of this review was that both relative total shareholder return (TSR) and underlying ROE remain important strategic measures, however other refinements were made to the operation of the plan. Further detail on these changes is available in the body of this report.

This report aims to clearly and concisely explain how the Committee and Board have determined remuneration outcomes across all the Company's remuneration programs which reflect our remuneration objectives.

David Foster

Chairman – Remuneration & Nominations Committee

Remuneration report (continued)

1. Executive summary

This report provides shareholders with an overview of the Genworth's remuneration governance, strategy, programs and outcomes for KMP for the year ended 31 December 2017. The table below provides a concise summary of the remuneration received by executive KMP in 2017. 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: 2017 Remuneration summary table (unaudited) as at 31 December 2017

		Fixed remuneration		At-risk/performance remuneration			
				STI		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	**2017**	**$870,000**	**$866,712**	**$870,000**	**$880,000**	**$850,000**	**$24,407**
Chief Executive Officer (CEO)	2016	$850,000	$817,981	$744,662	$645,000	$850,000	$14,966
Luke Oxenham	**2017**	**$475,000**	**$470,878**	**$237,500**	**$118,750**	**$225,000**	**$13,041**
Chief Financial Officer (CFO)	2016	$450,000	$446,351	$225,000	$260,000	$225,000	–
Andrew Cormack	**2017**	**$485,000**	**$485,000**	**$145,500**	**$130,000**	**$242,500**	**$12,277**
Chief Risk Officer (CRO)	2016	$485,000	$483,378	$145,500	$145,000	$237,500	–
Tobin Fonseca	**2017**	**$450,000**	**$450,000**	**$225,000**	**$200,000**	**$225,000**	**$30,440**
Chief Operating Officer (COO)	2016	$450,000	$433,979	$220,493	$150,000	$202,500	$27,117
Steven Degetto[6]	**2017**	**$435,000**	**$200,046**	**$100,109**	**$105,000**	**$217,500**	**–**
Chief Commercial Officer (CCO)	2016	–	–	–	–	–	–

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 TFR received shows the fixed remuneration earned throughout 2017 as a KMP and is different to contract TFR due to increases as part of the annual review effective 1 March and part years.

3 Actual STI awarded reflects 2017 STI awards (including any amounts delivered as deferred STI, see section 4 for more details).

4 The 2017 LTI Target reflects the dollar value of the LTI grant awarded for the performance period starting January 1 2017.

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 Steven Degetto commenced with Genworth on 17 July, 2017 and the TFR and actual STI figures included in this table are reflective of a partial year service.

Throughout this report, KMP refers to those responsible for planning, directing and controlling the activities of the Company, made up of non-executive directors (NEDs), the executive director and nominated executives. Please refer to section 7 for details relating to NEDs.

Table 1b: Executive KMP in 2017

Name	Position	Term as KMP
Executive KMP		
Georgette Nicholas	CEO	Full year
Luke Oxenham	CFO	Full year
Andrew Cormack	CRO	Full year
Tobin Fonseca	COO	Full year
Steven Degetto	CCO	17 July – 31 December

Remuneration report (continued)

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 and Ernst & Young in 2017. Services included the provision of market data and market practices. 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 talented people 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 pay mix and delivery vehicles (eg cash, equity and non-monetary benefits);
- measuring performance and delivering resulting remuneration over an appropriate time frame;
- using appropriate measures of competitiveness (eg median of relevant 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 company strategy and performance

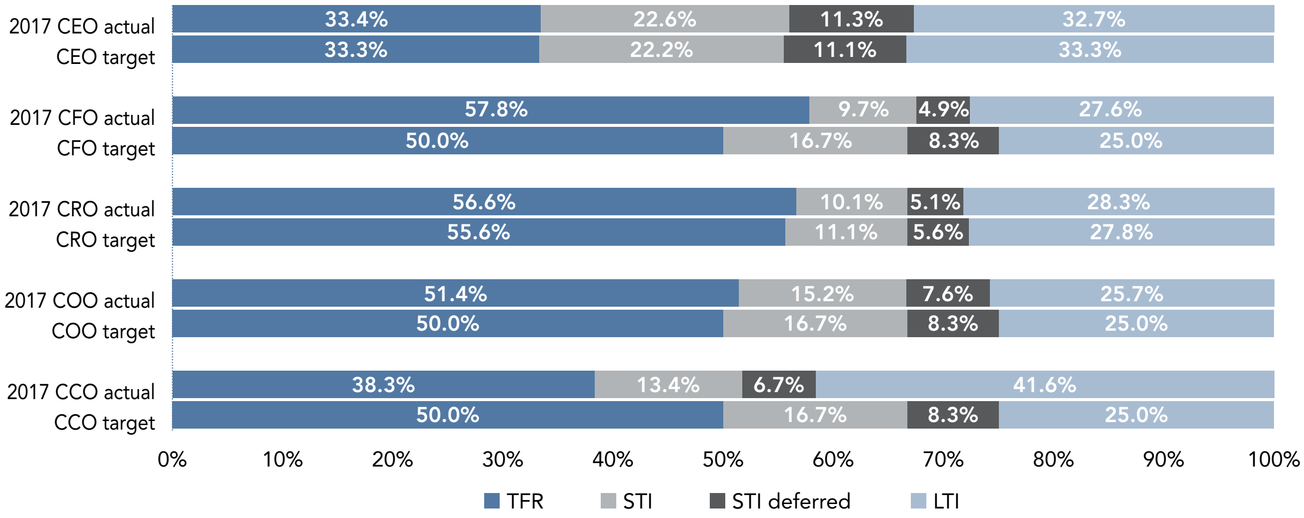
Business vision	Remuneration strategy
To be a leading provider of customer focused capital and risk management solutions in residential mortgage markets.	To attract, retain and motivate talented people dedicated to achieving business objectives in line with Genworth's long-term interests.
Measures of success	**Actual performance**
• Enhance profitability within risk adjusted return parameters by pricing NIW within agreed risk appetite and return parameters.	• New business volume tracked above the operating plan target, however NEP decreased considerably (relative to 2016) reflecting the impact of the 2017 earnings curve review. Underlying NPAT was $171m ($145m excluding realised investment gains) compared with a target of $140m and underlying ROE was 9.0% (7.7% excluding realised investment gains) compared with a target of 7.9%.
• Improve productivity by actioning a number of cost and underwriting efficiency initiatives while maintaining strong risk management discipline and customer experience.	• Actioned $1.5m of cost savings, alongside continued progress on key productivity projects covering underwriting efficiency and improving the use of data and mortgage partnerships in making key business decisions. The full year loss ratio of 38.3% compared favourably with the forecast range of 40–50% disclosed to the market in February 2017.
• Improved customer engagement and retention through the development of a number of product enhancements and flexible product options that can be tailored to individual customer needs.	• Implemented a number of alternative risk management solutions with customers including improved bulk insurance capability. Retained market leading position via the renewal of key contracts and via alternative reinsurance structures with key clients.
• Improved employee alignment, agility and engagement. Continued focus on enhancing the culture to be more adaptive and enable Genworth to execute on its strategic objectives.	• Engagement levels improved 4%, with an increase of 11% for business alignment. Diversity and inclusion measures remain particularly favourable.

Remuneration report (continued)

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 1.32% in the 2017/18 remuneration review.
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 101% STI funding. STI awards to Executive KMP ranged from 25–52% of the maximum.
LTI Awards reflect company performance against ROE and relative TSR targets.	LTI The 2015 LTI plan was the first to be tested following Genworth's listing on the ASX in 2014. A 12 month deferral period applies from the end of the relevant performance period (31 December '17), meaning performance rights will vest in 1Q19. For further detail on performance of the 2015 LTI grant, refer to section 3.3 – Link between performance and LTI outcomes.

Table 2.4b: 2017 target mix of pay (relative weight of each component as a percentage of total remuneration as at 31 December 2017)



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

Total fixed remuneration 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 as the primary reference point for comparative purposes.

As part of the 2017 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

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 any fixed pay changes and incentive awards for the CEO and KMP. Recommendations take into account the STI pool funding percentage and the performance of the executive KMP against individual and business performance goals as well as the behaviour demonstrated by the executive KMP in their role consistent with the Company values. Individual executive KMP goals align to the financial and operational objectives used to determine STI pool funding.

Table 2.6a: 2017 STI key characteristics

2017 STI features	Detail		
Purpose of STI plan	Motivate and retain employees by providing awards that reflect a combination of individual performance and Genworth's performance including operating within the risk management framework and behaviours as measured against Genworth's values.		
STI (% of TFR) by role	**Executive KMP**	**Target % (of TFR)**	**Maximum % (of TFR)**
	CEO:	100%	200%
	CFO, CCO & COO:	50%	100%
	CRO:	30%	60%
Performance objectives	**Financial objectives**	**Strategic objectives**	
	Underlying NPAT (32.5%)	Execute key strategic priorities (35%)	
	Underlying ROE (32.5%)		
Aggregate objective weighting	**Financial objectives**	**Strategic objectives**	
	65%	35%	
Performance period	1 January 2017 – 31 December 2017.		
Performance assessment	In 1Q18, Genworth's performance against each individual objective was evaluated to determine the STI pool funding percentage.		
Award determination	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).		
Payment date	1Q18.		
Payment method	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).		
Deferral period	Deferred STI component deferred for 12 months from 1 March 2018.		
Deferred STI vesting conditions	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.		
Share rights grant calculation	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 2017. 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.		
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 following the release of the 2017 annual results 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.		

Remuneration report (continued)

Table 2.6b: 2018 STI performance objectives and weightings

STI performance objective & weighting	Rationale
Underlying NPAT (40%)	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). For 2018, the weighting of Underlying NPAT has been increased to 40% of the overall scorecard, with Underlying ROE reducing to 25 per cent of the scorecard.
Underlying ROE (25%)	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, enhancement of existing product suite, renewal and winning of key customer contracts, expense ratio and productivity management, loss ratio management and culture enhancement.

2.7 Long-term incentive

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 per cent 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.

Commencing 1 January 2015, executive KMP were invited to participate in an annual LTI grant of share rights which are subject to vesting conditions. Vesting conditions for the 2017 plan include performance-based vesting scales in respect of company performance against underlying ROE and relative TSR. Relative TSR was introduced given its ability to drive behaviours over the long-term that align shareholder return and executive reward.

Table 2.7a: 2017 LTI key characteristics

<table>
<tr><th>LTI 2018 features</th><th>Detail</th></tr>
<tr><td>Purpose of LTI plan</td><td>Motivate and retain employees by providing awards that align with longer-term company performance, reflect the ability of the role to influence Genworth's performance and operate within Genworth's risk management framework.</td></tr>
<tr><td>LTI % by Executive KMP role</td><td><table><tr><th>Executive KMP</th><th>Target % (of TFR)</th></tr><tr><td>CEO</td><td>100%</td></tr><tr><td>Other KMP</td><td>50%</td></tr></table></td></tr>
<tr><td>Performance metrics</td><td>Underlying ROE:
50% of the 2017 LTI grant. Calculated as the average of three year underlying NPAT (excluding unrealised gains or losses from investments) divided by the three year average equity (excluding mark-to-market value of investments).</td></tr>
<tr><td></td><td>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.</td></tr>
<tr><td>Comparator group for TSR metric</td><td>ASX top 200 excluding resources companies.</td></tr>
<tr><td>Vesting scales summary</td><td><table><tr><th>Vesting %</th><th>0%</th><th>50%</th><th>60%</th><th>70%</th><th>80%</th><th>90%</th><th>100%</th></tr><tr><td>Underlying ROE</td><td><9.5%</td><td>9.5%</td><td>10.2%</td><td>10.9%</td><td>11.6%</td><td>12.3%</td><td>13.0%</td></tr><tr><td>Relative TSR</td><td><50th</td><td>50th</td><td>55th</td><td>60th</td><td>65th</td><td>70th</td><td>75th</td></tr></table></td></tr>
<tr><td>Vesting summary</td><td>Vesting occurs on a straight line basis between the summary points above and each performance metric is measured and vests (as applicable) independently of the other.</td></tr>
<tr><td>Performance period</td><td>1 January 2017 – 31 December 2019.</td></tr>
<tr><td>Performance assessment</td><td>Performance to be assessed in 1Q20. There is no retesting of grants.</td></tr>
<tr><td>Deferral period</td><td>12 months from the end of the relevant performance period.</td></tr>
<tr><td>Vesting period/date</td><td>Four years in total from the start of relevant performance period (three year performance period with an additional year deferral).</td></tr>
<tr><td>Award determination</td><td>At the end of the performance period, final vesting percentages are determined via a 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).</td></tr>
<tr><td>Payment method</td><td>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.</td></tr>
</table>

Remuneration report (continued)

LTI 2018 features	Detail
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 FY17 earnings. 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.
Treatment of dividends	Dividends, or the value of any dividends, are not received on unvested share rights. Notional dividend equivalents are only provided following the completion of the four year vesting period and only on share rights that vest based on the satisfaction of performance hurdles. 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: 2018 LTI key characteristics

LTI 2018 features	Detail
Performance metrics	**Underlying ROE**: 25% of the 2018 LTI grant. Calculated as the average of three year underlying NPAT (excluding unrealised gains or losses from investments) divided by the three year average equity (excluding mark to market value of investments). Underlying ROE is a strategically important internal measure of financial performance for Genworth. It captures the Company's ability to convert equity into returns (profit) and supports a number of Genworth's strategic priorities. Underlying ROE is measured across both the STI and LTI scorecards and for the 2018 LTI grant its weighting has been lowered to 25% of the overall grant. **Relative TSR**: 75% of the 2018 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. Increasing the weighting of relative TSR in the LTI scorecard aims to further strengthen shareholder alignment by ensuring LTI vesting is directly linked to relative shareholder returns.
Relative TSR comparator group	Top 200 ASX financial services companies excluding REITs. Refining the peer group to include organisations with a similar share price beta to Genworth intends to strengthen the line-of-sight for executive KMP. The refinement of the peer group aims to limit the impact of broad industry ASX fluctuations on executive KMP incentive outcomes.
Vesting scales summary	See vesting scale below. The relative TSR vesting schedule remains unchanged for 2018. As part of Genworth's 2017 full year earnings release, it was announced that 2018 NEP and full year loss ratio are expected to be impacted by the 2017 earnings curve review. At the same time, the business remains focused on enhancing existing LMI business and leveraging core competencies to offer a broader suite of complementary capital and risk management solutions for customers. The revised underlying ROE vesting schedule aims to balance shareholder expectations relating to return on equity, whilst ensuring the plan remains motivational for plan participants as Genworth manages through a transitionary period for the business.

Vesting %	0%	50%	60%	70%	80%	90%	100%
Underlying ROE	<7.5%	7.5%	8.4%	9.3%	10.2%	11.1%	12.0%
Relative TSR	<50th	50th	55th	60th	65th	70th	75th

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 listing. Share ownership requirements are tested each time share rights vest. Until the ownership requirements are met, 25 per cent of shares vested via equity plans (deferred STI component and LTI) must be retained.

3. Relationship between company performance and remuneration

3.1 Performance overview

Whilst operating in challenging and dynamic market conditions, Genworth delivered financial results in line with market guidance in 2017, at the same time maintaining dividend payouts and executing on capital actions. Genworth's performance in 2017 was slightly above target across the financial measures of underlying NPAT and full year loss ratio, but slightly below target for underlying ROE. This performance is reflected in an on-target bonus pool and resulting awards to executive KMP (more detail section 3.2).

Table 3.1a: Summary of Genworth's performance (2017)

Financial results	2014 (unaudited [1])	2015	2016	2017
Gross written premium (A$m)	$634.2	$507.6	$381.9	**$369.0**
Net investment income (A$m)	$226.9	$107.9	$126.0	**$103.3**
Underlying NPAT (A$m)	$279.4	$264.7	$212.2	**$171.1**
Expense ratio	26.5%	26.2%	25.7%	**29.3%**
Underlying ROE	12.2%	11.6%	10.4%	**9.0%**
Dividends paid	$0.274	$0.503	$0.405	**$0.260**
Share price at start of reporting period	$2.65	$3.64	$2.76	**$3.27**
Share price at end of reporting period	$3.64	$2.76	$3.27	**$3.00**

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

3.2 Link between performance and STI outcomes

The link between remuneration outcomes and business performance is fundamental to the design, administration and outcomes of Genworth's remuneration programs. In developing threshold, on-target and stretch performance levels for financial measures, Genworth considers a combination of internal financial forecasts as well as external analyst expectations following the release of our prior year financial results. In light of Genworth's performance against 2017's STI objectives, the Board determined the STI pool funding level to be 101 per cent of the sum of STI targets.

Table 3.2a: 2017 STI performance objectives and Board assessment of performance

STI performance objective & weighting	Rationale	Assessment of 2017 performance
Underlying NPAT (32.5%)	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 2017 was $171m compared with a target of $140m. A key driver of this performance was a higher realised investment gain than forecast, which the Board decided to exclude from the STI funding calculation for 2017 (resulting in an underlying NPAT outcome of $145m). This decision was made on the basis that the realised investment gain was not anticipated at the time performance targets were set. Other drivers of performance included higher GWP than forecast, lower new delinquencies than forecast and loss ratio below the forecast range, being offset by the impact of the 2017 Earnings Curve Review.
Underlying ROE (32.5%)	ROE is a key measure of the Company's ability to convert equity into returns (profit).	2017 underlying ROE results were above plan, delivering 9.0% compared with a target of 7.9%. Consistent with underlying NPAT, the Board decided to exclude realised investment gains from the underlying ROE calculation, resulting in an outcome of 7.7%.
Execute key strategic objectives (35%)	Key strategic priorities for each performance period may vary year-to-year based on Genworth's priorities. For the 2017 performance period, this list included cost and underwriting efficiency measures, product enhancement, renewal of key customer contracts, new business pricing, culture enhancement and employee engagement and alignment.	The Board determined overall performance against key strategic objectives to be on target. Further detail on actual performance is provided in table 2.4a.

3.3 Link between performance and LTI outcomes

2015 LTI award

In January 2015, executive KMP roles were provided with a grant of share rights which vest subject to company performance against underlying ROE and compound annual growth in earnings per share (EPS). A 12 month deferral period applies from the end of the relevant performance period (31 December, 2017), meaning the first tranche of Performance Rights will vest in 1Q19.

LTI performance objective and weighting	Detailed calculation	Performance range	Drivers of performance
EPS growth (50%)	Calculated as the three year compound average annual growth of EPS comprising basic EPS (after tax and excluding the impact of any share issuance or buy back).	Threshold performance (50% vesting): 0.5% Maximum performance (100% vesting): 3.0%	The EPS Growth hurdle was not met and 100% of this tranche lapsed. A key contributor to this outcome was share buy-backs being excluded from the calculation. If capital actions were included, EPS growth would have resulted in higher compounded growth over the performance period.
Underlying ROE (50%)	Calculated as the average of three year underlying NPAT (excluding unrealised gains or losses from investments) divided by the three year average equity (excluding mark-to-market value of investments)	Threshold performance (50% vesting): 10.7% Maximum performance (100% vesting): 12.6%	The threshold underlying ROE hurdle for the 2015 award was 10.7% and the actual underlying ROE result was 10.5% (including the impact of the 2017 earnings curve review). As part of the share rights plan rules, the Board and the Remuneration & Nominations Committee have discretion to adjust LTI measurement and vesting percentages to account for circumstances that were not foreseen at the time performance targets were set. When the Board deliberated on underlying ROE performance to determine LTI vesting, consideration was given to exercising discretion and adjusting for the impact of the 2017 earnings curve review. The Board ultimately decided to exclude the impact of this change, which resulted in an underlying ROE outcome of 11.0% (58% vesting of the underlying ROE tranche, 29% of the overall LTI grant). The Board was cognisant that this discretion was the difference between vesting and nil vesting and considered the following items in making this decision: • The impact of the 2017 earnings curve review lengthens the average duration over which Genworth recognises its revenue, however it does not affect the total amount of revenue expected to be earned over time from premiums already written. The Board viewed the outcome of the review to be a change to accounting revenue recognition. • The impact and the extent of this change was not anticipated at the time in which performance targets were set. Two current executives (Georgette Nicholas; Tobin Fonseca) will qualify for partial vesting in 1Q19, at which point more detail on actual vesting outcomes will be provided. The above discretion will be applied only in respect of the 2015 grant. All outstanding and future LTI vesting will be measured using the modified premium earnings pattern.

Remuneration report (continued)

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)
Georgette Nicholas CEO	100%	$870,000	$1,740,000	$586,667	$293,333	96,070	$880,000	101%	51%	49%
Luke Oxenham CFO	50%	$237,500	$475,000	$79,167	$39,583	12,964	$118,750	25%	25%	75%
Andrew Cormack CRO	30%	$145,500	$291,000	$86,667	$43,333	14,192	$130,000	27%	45%	55%
Tobin Fonseca COO	50%	$225,000	$450,000	$133,333	$66,667	21,834	$200,000	44%	44%	56%
Steven Degetto CCO	50%	$100,109	$200,218	$70,000	$35,000	11,463	$105,000	24%	52%	48%

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 2017 ($3.0533) and will vest on 1 March 2019 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.

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.

Remuneration report (continued)

6. KMP remuneration tables

Table 6a: Statutory remuneration table – 1 January to 31 December 2017

		Short-term remuneration				
KMP		Cash salary [1]	Other benefits [2]	Non-monetary benefits [3]	Cash STI awarded [4]	Deferred STI [5]
Executive KMP						
Georgette Nicholas	**2017**	**$838,896**	**$282,059**	**$20,020**	**$586,667**	**$234,653**
CEO	2016	$755,503	$190,839	$115,159	$430,000	$101,633
Luke Oxenham	**2017**	**$443,063**	**$600**	**$20,020**	**$79,167**	**$58,918**
CFO	2016	$405,083	$5,280	$18,959	$173,333	$40,968
Andrew Cormack	**2017**	**$465,168**	**$600**	**$1,701**	**$86,667**	**$44,711**
CRO	2016	$440,266	$42,171[8]	$5,351	$96,667	$22,847
Tobin Fonseca	**2017**	**$430,168**	**$0**	**$1,072**	**$133,333**	**$60,160**
COO	2016	$396,829	$0	$3,998	$100,000	$23,635
Steven Degetto	**2017**	**$187,590**	**$24,619**	**$7,049**	**$70,000**	**$9,687**
CCO	2016	–	–	–	–	–

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, a tax equalisation payment in respect of the 2016 financial year for Georgette Nicholas and the accrual of a sign-on bonus for Steven Degetto.

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 2017 performance, inclusive of super, accrued for in 2017. Actual payment made in March 2018.

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 2017 deferred STI plan has been calculated using the share price at 29 December 2017 ($3.00).

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 2017 LTI grants provided to Georgette Nicholas, Luke Oxenham, Andrew Cormack, Steven Degetto, Tobin Fonseca in the period are $2.61 for share rights relating to the ROE performance condition and $1.71 relating to the Relative TSR performance condition.

8 Figure includes an incentive retention payment agreement between Andrew Cormack and Genworth Financial (his previous employer). Genworth Financial paid for the complete award.

Table 6b: Share option holdings for the reporting period ended 31 December 2017

Executive KMP	Grant detail	Grant date	Issue price	Vesting date
Name and position				
Georgette 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
Andrew Cormack CRO	GFI Equity '09	19 Aug '09	$9.41	19 Aug '10, '11, '12
	GFI Equity '09	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

Remuneration report (continued)

	Long-term/post-emp benefits						
Sub-total	Super benefits	Long serv leave [6]	Share-based payments RSUs [7]	Termination benefits	Total	% of total that is performance related	% of total that are options
$1,962,295	**$19,832**	**$23,282**	**$536,537**	**$0**	**$2,541,947**	**47%**	**0%**
$1,593,134	$193,802	$18,712	$453,670	$0	$2,259,318	33%	0%
$601,767	**$19,832**	**$15,548**	**$147,279**	**$0**	**$784,426**	**30%**	**0%**
$643,623	$38,279	$26,713	$141,105	$0	$849,720	32%	0%
$598,845	**$19,832**	**$12,853**	**$144,109**	**$0**	**$775,640**	**31%**	**0%**
$607,302	$45,776	$5,095	$122,492	$0	$780,665	23%	0%
$624,732	**$19,832**	**$11,926**	**$248,270**	**$0**	**$904,761**	**32%**	**0%**
$524,462	$35,865	$26,610	$321,563	$0	$908,500	19%	0%
$298,944	**$10,024**	**$5,735**	**$40,514**	**$0**	**$355,217**	**34%**	**0%**
–	–	–	–	–	–	–	–

	Movement during the year						
# Held 31/12/16	Granted	Forfeited	Vested	Exercised	Expired	# Held 31/12/17	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	0	0	0	20,400	$2.36
18,000	0	0	4,500	0	0	18,000	$2.40
2,450	0	0	0	0	2,450	0	$33.99
3,738	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	0	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

Remuneration report (continued)

Table 6c: Share right holdings for the reporting period ended 31 December 2017

Executive KMP	Grant detail	Grant date	Issue price	Vesting date
Name and position				
Georgette Nicholas	GFI Equity '13	15 Feb '13	$8.79	15 Feb '16, '17
CEO	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
	LTI '17	1 Jan '17	$2.90	31 Dec '20
	Deferred STI '16	1 March '17	$3.19	1 March '18
Luke Oxenham	GFI Equity '13	15 Feb '13	$16.91	15 Feb '16, '17
CFO	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
	LTI '17	1 Jan '17	$2.90	31 Dec '20
	Deferred STI '16	1 March '17	$3.19	1 March '18
Andrew Cormack	GFI Equity '13	15 Feb '13	$8.79	15 Feb '16, '17
CRO	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]	1 March '16	$2.59	1 March '17
	LTI '17	1 Jan '17	$2.90	31 Dec '20
	Deferred STI '16	1 March '17	$3.19	1 March '18
Tobin Fonseca	GFI Equity '13	15 Feb '13	$8.79	15 Feb '16, '17
COO	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[2]	1 March '16	$2.59	1 March '17
	LTI '17	1 Jan '17	$2.90	31 Dec '20
	Deferred STI '16	1 March '17	$3.19	1 March '18
Steven Degetto **CCO**	LTI '17	1 Jan '17	$2.90	31 Dec '20

[1] The number granted during 2017 is reflective of dividends accrued during the vesting period.

[2] The number granted during 2017 is reflective of dividends accrued during the vesting period.

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.

	Movement during the year				
20# Held 31/12/16	Number granted	Forfeited	Vested	Exercised	# Held 31/12/17
2,000	0	0	2,000	2,000	0
5,524	0	0	2,762	2,762	2,762
125,786	0	0	62,893	62,893	62,893
59,943	0	0	0	0	59,943
364,119	0	0	0	0	364,119
0	293,204	0	0	0	293,204
0	67,341	0	0	0	67,341
1,562	0	0	1,562	1,562	0
1,974	0	0	987	987	987
50,314	0	0	25,157	25,157	25,157
9,736	0	0	3,245	3,245	6,491
96,384	0	0	0	0	96,384
0	77,612	0	0	0	77,612
0	27,145	0	0	0	27,145
1,500	0	0	1,500	1,500	0
1,800	0	0	900	900	900
101,739	0	0	0	0	101,739
6,817	975	0	7792	7792	0
0	83,649	0	0	0	83,649
0	15,138	0	0	0	15,138
3,650	0	0	3,650	3,650	0
4,600	0	0	2,300	2,300	2,300
125,786	0	0	62,893	62,893	62,893
56,253	0	0	0	0	56,253
86,746	0	0	0	0	86,746
29,644	4,240	0	33,884	33,884	0
0	77,612	0	0	0	77,612
0	15,660	0	0	0	15,660
0	75,025	0	0	0	75,025

7. NED remuneration

Table 7a: KMP in 2017 – NEDs

Name	Position	Term as KMP
Ian MacDonald	Chairman	Full Period
David Foster	Independent Director – Genworth Financial designated	Full Period
Anthony Gill	Independent Director	Full Period
Gai McGrath	Independent Director	Full Period
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

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. At the Annual General Meeting (AGM) the aggregate fee cap was increased to $1.75 million per annum, inclusive of superannuation obligations. NEDs who are executives of Genworth Financial (Stuart Take and Jerome Upton) were paid by Genworth Financial in the ordinary course of their duties and were not paid fees by Genworth Australia. Leon Roday retired from his role as an executive of Genworth Financial in 2015 and is paid fees as set out in table 7c.

Table 7b: NED fee table

Position	Annual fee
NEDs (excluding Stuart Take and Jerome Upton)	
Board Chairman	$265,000
Director [1]	$115,000
Committee Chairman (per Committee)	$24,000
Committee member (per Committee)	$12,000

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

Director fees are reviewed annually and may be adjusted in line with market standards within the aggregate fee cap. 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.

Remuneration report (continued)

Table 7c: Statutory remuneration table – 1 January to 31 December 2017

KMP	Year	Fees	Non-monetary benefits	Superannuation benefits	Total
NEDs					
Ian MacDonald	**2017**	**$242,009**	**$0**	**$22,991**	**$265,000**
Chairman	2016	$187,435	$0	$17,806	$205,241
David Foster [1]	**2017**	**$159,817**	**$0**	**$15,183**	**$175,000**
Director	2016	$85,798	$0	$8,151	$93,949
Anthony Gill [2]	**2017**	**$175,000**	**$0**	**$0**	**$175,000**
Director	2016	$175,000	$0	$0	$175,000
Gai McGrath [3]	**2017**	**$157,991**	**$0**	**$15,009**	**$173,000**
Director	2016	$50,020	$0	$4,752	$54,772
Gayle Tollifson [4]	**2017**	**$159,817**	**$0**	**$15,183**	**$175,000**
Director	2016	$159,817	$0	$15,183	$175,000
Leon Roday [5]	**2017**	**$127,000**	**$0**	**$0**	**$127,000**
Director	2016	$127,000	$0	$0	$127,000
Stuart Take [6]	**2017**	**$0**	**$0**	**$0**	**$0**
Director	2016	$0	$0	$0	$0
Jerome Upton [7]	**2017**	**$0**	**$0**	**$0**	**$0**
Director	2016	$0	$0	$0	$0

1 David Foster is Chairman of the Remuneration & Nominations Committee and Technology Committee and a member of the Capital & Investment Committee.
2 Anthony Gill is Chairman of the Capital & Investment Committee and a member of the Audit Committee, Risk Committee and Technology Committee.
3 Gai McGrath is Chairman of the Audit Committee and a member of the Risk Committee, Remuneration & Nominations Committee and Technology Committee.
4 Gayle Tollifson is Chairman of the Risk Committee and a member of the Audit Committee, Capital & Investment Committee and Remuneration & Nominations Committee.
5 Leon Roday is a member of the Remuneration & Nominations Committee.
6 Stuart Take is a member of the Risk Committee.
7 Jerome Upton is a member of the Audit Committee, Risk Committee, Capital & Investment Committee and the Technology Committee.

8. Other tables

Table 8a KMP and their related parties direct, indirect and beneficial shareholdings (including movements during the period ending 31 December 2017).

	Balance at 31-Dec-16	Received via vesting/ exercising	Other changes	Balance at 31-Dec-17
Executive KMP				
Georgette Nicholas – CEO	53,805	62,893	0	116,698
Luke Oxenham – CFO	0	28,402	(28,402)	0
Andrew Cormack – CRO	0	7,792	0	7,792
Tobin Fonseca – COO	0	96,777	(94,656)	2,121
Steven Degetto – CCO	0	0	0	0
NEDs				
Ian MacDonald – Chairman	64,565	0	0	64,565
David Foster – Director	0	0	8,196	8,196
Anthony Gill – Director	118,640	0	0	118,640
Gai McGrath – Director	0	0	6,650	6,650
Gayle Tollifson – Director	48,424	0	0	48,424
Leon Roday – Director	16,775	0	0	16,775
Stuart Take – Director	8,297	0	0	8,297
Jerome Upton – Director	16,711	0	0	16,711

Remuneration report (continued)

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

Directors	Genworth Group balance held directly or indirectly at 31 Dec 2017	Genworth Financial balance held directly or indirectly at 31 Dec 2017	Genworth MI Canada Inc. balance held directly or indirectly at 31 Dec 2017
Ian MacDonald	Shares: 64,565	None	None
Georgette Nicholas	Shares: 116,698 Share rights: 847,500	Shares: 15,809 Restricted stock units: 2,762 Options: 17,550 Stock appreciation rights: 56,400	None
David Foster	Shares: 8,196	None	None
Anthony Gill	Shares: 118,640	None	None
Gai McGrath	Shares: 6,650	None	None
Gayle Tollifson	Shares: 48,424	None	None
Leon Roday	Shares: 16,775	Stock appreciation rights: 546,833[1]	Shares: 3,020
Stuart Take	Shares: 8,297	Shares: 24,531 Restricted stock units: 53,375 Options: 30,000 Stock appreciation rights: 53,200	None
Jerome Upton	Shares: 16,711	Shares: 16,186 Restricted stock units: 62,162 Options: 22,000 Stock appreciation rights: 88,000	Shares: 906

[1] The 2016 Remuneration Report incorrectly identified Leon Roday's share appreciation rights as restricted stock units.

Directors' report (continued)

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

Signed in accordance with a resolution of the directors:

Ian MacDonald
Chairman

Dated 28 February 2018

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 2017 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 28 February 2018

Financial statements

Contents

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
GWP	3.1	**368,963**	381,910
Movement in unearned premium		**69,246**	142,790
Outward reinsurance premium expense		**(67,740)**	(71,824)
Net earned premium		**370,469**	452,876
Net claims incurred	4.1	**(141,774)**	(158,783)
Acquisition costs		**(49,919)**	(52,505)
Other underwriting expenses	3.3	**(58,462)**	(64,045)
Underwriting result		**120,314**	177,543
Investment income on assets backing insurance liabilities	3.2	**28,001**	40,353
Insurance profit		**148,315**	217,896
Investment income on equity holders' funds	3.2	**75,337**	85,641
Financing costs		**(11,490)**	(14,205)
Profit before income tax		**212,162**	289,332
Income tax expense	3.5(a)	**(62,988)**	(86,238)
Profit for the year		**149,174**	203,094
Total comprehensive income for the year		**149,174**	203,094
EPS			
Basic EPS (cents per share)	3.7	**29.7**	37.2
Diluted EPS (cents per share)	3.7	**29.7**	37.1

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 2017

	Note	2017 $'000	2016 $'000
Assets			
Cash		**43,025**	57,634
Accrued investment income		**17,777**	28,754
Investments including derivatives	2.2(d)	**3,348,547**	3,464,951
Trade and other receivables	6.4	**12,521**	3,749
Prepayments		**2,450**	2,326
Deferred reinsurance expense	4.2	**145,425**	80,163
Non-reinsurance recoveries	4.5	**23,552**	34,414
Deferred acquisition costs	4.3	**151,791**	141,997
Plant and equipment		**938**	472
Deferred tax assets	3.5(b)	**9,435**	9,963
Intangibles	6.1	**1,301**	2,006
Goodwill	6.2	**9,123**	9,123
Total assets		**3,765,885**	3,835,552
Liabilities			
Trade and other payables	6.5	**31,653**	37,111
Reinsurance payable		**159,979**	95,328
Outstanding claims	4.4	**339,679**	355,546
Unearned premium	4.6	**1,108,554**	1,177,801
Employee benefits provision	6.3	**6,796**	6,413
Interest bearing liabilities	5.2	**197,035**	195,972
Total liabilities		**1,843,696**	1,868,171
Net assets		**1,922,189**	1,967,381
Equity			
Share capital	5.3(a)	**1,303,151**	1,354,034
Share based payment reserve	5.3(b)	**2,528**	3,389
Other reserves	5.5	**(476,559)**	(476,559)
Retained earnings		**1,093,069**	1,086,517
Total equity		**1,922,189**	1,967,381

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 2017

	Share capital $'000	Other reserves $'000	Retained earnings $'000	Share based payment reserve $'000	Total $'000
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 the major shareholder	–	–	–	(59)	(59)
Balance at 31 December 2016	1,354,034	(476,559)	1,086,517	3,389	1,967,381
Balance at 1 January 2017	1,354,034	(476,559)	1,086,517	3,389	1,967,381
Profit after taxation	–	–	149,174	–	149,174
Dividends declared and paid	–	–	(142,622)	–	(142,622)
Share based payment expense recognised	–	–	–	3,284	3,284
Share based payment settled	–	–	–	(4,145)	(4,145)
Buy-back of shares, net of transaction costs	(50,883)	–	–	–	(50,883)
Balance at 31 December 2017	1,303,151	(476,559)	1,093,069	2,528	1,922,189

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 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Premiums received		368,963	381,910
Interest and other income		109,200	133,908
Claims paid		(146,779)	(85,864)
Financial expense on long-term borrowings		(10,696)	(11,527)
Cash payments in the course of operations		(192,267)	(205,881)
Income tax paid		(69,731)	(110,319)
Net cash provided by operating activities	3.4	58,690	102,227
Cash flows from investing activities			
Payment for plant and equipment and intangibles		(1,306)	(1,520)
Payments for investments		(1,276,963)	(896,886)
Proceeds from sale of investments		1,398,475	1,277,648
Net cash provided by investing activities		120,206	379,242
Cash flows from financing activities			
Repayment of long-term borrowings		–	(49,619)
Dividends paid		(142,622)	(249,894)
Capital reduction		–	(202,436)
Payments for the on-market buy-back of shares		(50,883)	–
Net cash used in financing activities		(193,505)	(501,949)
Net decrease in cash held		(14,609)	(20,480)
Cash and cash equivalents at the beginning of the financial year		57,634	78,114
Cash and cash equivalents at the end of the financial year	6.6	43,025	57,634

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 2017 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 28 February 2018.

1.2 Basis of preparation

(a) Statement of compliance

This report has been prepared in accordance with the Corporations Act 2001, 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 the 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 adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2017. The adoption of these standards did not have a material financial impact:

	New standards, amendments and interpretations	Operative date
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 2017-2	Amendments to Australian Accounting Standards – Further annual improvements 2014-2016 cycle	1 January 2017

Notes to the financial statements (continued)

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 2018, and have not been applied in preparing these consolidated financial statements. An initial assessment of the financial impact of the standards and amendments has been undertaken, except for AASB 17 detailed below they are not expected to have a material impact on the Group's 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 17	Insurance contracts	1 January 2021
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018
AASB 2014-1	Amendments to Australian Accounting Standards – Financial instruments Part E	1 January 2018
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	1 January 2018
AASB 2015-8	Amendments to Australian Accounting Standards – Effective date of AASB 15	1 January 2018
AASB 2015-10	Amendments to Australian Accounting Standards – Effective date of Amendments to AASB 10 and AASB 128	1 January 2018
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
AASB 2016-6	Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018
AASB 2017-3	Amendments to Australian Accounting Standards – Clarifications to AASB 4	1 January 2018
AASB 2017-4	Amendments to Australian Accounting Standards – Uncertainty over income tax treatments	1 January 2019
IFRIC Interpretation 22	Foreign currency transactions and advance consideration	1 January 2018
IFRIC Interpretation 23	Uncertainty over income tax treatments	1 January 2019

AASB 9 was issued during 2014 and will replace existing accounting requirements for financial instruments. Currently, the Group's investments are designated as fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date, reflecting the business model applied by the Group to manage and evaluate its investment portfolio. Under this business model, the adoption of AASB 9 is not expected to result in significant changes to accounting for investments. Other changes to the accounting for the Group's financial instruments arising from the application of AASB 9 are expected to be minimal. The Group plans to defer the adoption of AASB 9 to align with the implementation of AASB 17 Insurance Contracts (effective 1 January 2021), which is permissible under the standard.

AASB 15 introduces a single model for the recognition of revenue based on when control of goods and services transfers to a customer. It does not apply to insurance contracts and financial instruments. Hence the Group's revenue is not materially impacted by this change.

AASB 16 was issued during 2016 and will replace existing accounting requirements for leases. Under current requirements, leases are classified based on their nature as either finance leases, which are recognised on the balance sheet, or operating leases, which are not recognised on the balance sheet. The application of AASB 16 will result in the recognition of all leases on the balance sheet in the form of a right-of-use asset and a corresponding lease liability, except for leases of low value assets and leases with a term of 12 months or less. As a result, the new standard is expected to impact leases which are currently classified by the Group as operating leases, primarily, leases over premises and equipment. Based on a preliminary assessment, it is not expected to have a material impact on the financial statements.

AASB 17 Insurance Contracts was released on 18 May 2017, with an expected effective date of 1 January 2021. The implementation date for the Group will be for the year ending 31 December 2021, with the comparative period the year ended 31 December 2020. A detailed impact assessment is currently underway with significant disclosure changes and some impact on profit and loss are anticipated.

(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.

Notes to the financial statements (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 for the financial year then ended.

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.

(g) Comparative figures

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

Section 2 Risk management

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

2.1 Risk management framework

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established a Risk Committee 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.

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 73 per cent of the Group's GWP, as outlined in the table below:

Lender customer	FY17 GWP	FY16 GWP
Lender customer 1	53%	47%
Lender customer 2	15%	14%
Lender customer 3	5%	10%

2.2 Financial risk management

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

(a) Market risk

Market risk is the risk that the market price of assets 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 (NZ) 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 per cent depreciation/appreciation of the Australian dollar (AUD) at the reporting date, assuming all other variables remain constant, is shown below.

	2017		2016	
	+10% $'000	-10% $'000	+10% $'000	-10% $'000
Impact to profit and loss and equity of 10% depreciation/appreciation of AUD on NZ assets and liabilities.	807	(986)	954	(1,165)

(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.

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

	2017		2016	
	+1% $'000	-1% $'000	+1% $'000	-1% $'000
Interest bearing assets	(35,626)	39,596	(40,437)	51,067

(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.

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 per cent 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 per cent increase/decrease in value of equity securities at reporting date are shown below.

	2017		2016	
	+10% $'000	-10% $'000	+10% $'000	-10% $'000
Investments – equity securities	23,740	(23,740)	13,136	(13,136)

(b) 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 86 per cent (2016: 97 per cent) 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.

	2017 $'000	2016 $'000
Cash at bank and short-term bank deposits		
AAA	67,609	41,359
AA	818,233	315,293
A	107,652	16,450
BBB	98,329	15,000
BB	3,000	3,000
	1,094,823	391,103
Investments		
AAA	864,997	1,532,210
AA	641,091	766,319
A	411,579	548,031
BBB	141,639	97,266
	2,059,306	2,943,826
Accrued interest receivable		
AAA	9,016	12,789
AA	4,330	9,845
A	3,881	5,289
BBB	516	418
BB	34	10
	17,777	28,351
Receivables without external credit rating	2,808	1,592

(c) 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.

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

2017 Financial liabilities	Less than 1 year $'000	1–5 years $'000	Total $'000
Payables	31,653	–	31,653
Reinsurance payable	84,979	75,000	159,979
Outstanding claims provision	254,730	84,949	339,679
	371,362	159,949	531,311

2016 Financial liabilities	Less than 1 Year $'000	1–5 years $'000	Total $'000
Payables	37,111	–	37,111
Reinsurance payable	83,689	11,639	95,328
Outstanding claims provision	273,250	82,296	355,546
	394,050	93,935	487,985

(d) Fair value measurements

Accounting policies

Financial assets backing general insurance liabilities

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

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

The 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 exposure and are not used for trading or speculation.

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

Notes to the financial statements (continued)

Investments

	2017 $'000	2016 $'000
Fixed interest rate		
Short-term deposits	**825,142**	149,738
Government and semi-government bonds	**709,009**	929,739
Corporate bonds	**678,659**	1,504,132
	2,212,810	2,583,609
Floating interest rate		
Short-term deposits	**226,656**	183,731
Corporate bonds	**629,397**	480,131
Government and semi-government bonds	**42,241**	26,936
	898,294	690,798
Equity securities		
Listed	**237,443**	187,655
Derivatives		
Investment related derivatives	**–**	2,889
Total investments	**3,348,547**	3,464,951
Current		
Current	**1,394,597**	821,766
Non-current	**1,716,507**	2,455,530
Equity	**237,443**	187,655
	3,348,547	3,464,951

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.

31 December 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial instruments				
Government and semi-government bonds	**–**	**751,250**	**–**	**751,250**
Corporate bonds	**–**	**1,308,056**	**–**	**1,308,056**
Short-term deposits	**1,051,798**	**–**	**–**	**1,051,798**
Equity investments	**237,443**	**–**	**–**	**237,443**
Total	**1,289,241**	**2,059,306**	**–**	**3,348,547**

31 December 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'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

Notes to the financial statements (continued)

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 2017 $'000	Purchases $'000	Disposals $'000	Movement in fair value $'000	Balance at 31 December 2017 $'000
Financial instruments					
Derivatives	2,889	–	–	(2,889)	–
Total	2,889	–	–	(2,889)	–

	Balance at 1 January 2016 $'000	Purchases $'000	Disposals $'000	Movement in fair value $'000	Balance at 31 December 2016 $'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

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 in 2016 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 obligation, to exercise the option if interest rates reach a particular level. The swaptions expired in December 2017.

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.

Notes to the financial statements (continued)

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.

	2017 $'000	2016 $'000
Direct premium	366,190	381,361
Inward reinsurance premium	2,773	549
	368,963	381,910

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

	2017 $'000	2016 $'000
Interest	86,048	120,927
Dividend revenue	12,182	7,113
Gains/(losses) in fair value of investments		
Unrealised	(31,291)	(12,525)
Realised	36,399	11,010
Impairments	–	(531)
Total investment income	103,338	125,994
Represented by		
Investment income on assets backing insurance liabilities	28,001	40,353
Investment income on equity holders' funds	75,337	85,641
	103,338	125,994

3.3 Other underwriting expenses

	2017 $'000	2016 $'000
Depreciation and amortisation expense	756	895
Employee expenses:		
- Salaries and wages	24,436	27,772
- Superannuation contributions	1,731	1,768
- Employee benefits	207	(218)
Occupancy expenses	2,516	2,820
Marketing expenses	471	566
Administrative expenses	28,345	30,442
	58,462	64,045

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.

	2017 $'000	2016 $'000
Profit after income tax	149,174	203,094
Less items classified as investing/financing activities:		
– Gain on sale of investments	(36,399)	(10,478)
– Unrealised loss on investments	31,291	12,525
Add non-cash items:		
– Share based payments	(861)	(2,132)
– Loss on disposal of plant and equipment	789	1
– Depreciation, amortisation and impairment	756	895
Net cash provided by operating activities before change in assets and liabilities	144,750	203,905
Change in assets and liabilities during the financial year:		
Increase in receivables	(52,318)	(7,809)
(Decrease)/increase in outstanding claims liability	(15,868)	78,563
Increase/(decrease) in payables and borrowings	60,255	(32,954)
(Increase)/decrease in deferred acquisition costs	(9,794)	3,078
Increase/(decrease) in provision for employee entitlements	383	(396)
Decrease in unearned premiums	(69,246)	(142,790)
Decrease in deferred tax asset balances	528	630
Net cash provided by operating activities	58,690	102,227

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

	31 December 2017 $'000	31 December 2016 $'000
Current tax	62,268	85,247
Deferred tax	528	462
Under provision in prior year		
Current tax	192	361
Deferred tax	–	168
	62,988	86,238

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

	31 December 2017 $'000	31 December 2016 $'000
Prima facie income tax expense calculated at 30% on profit	63,649	86,800
Increase in income tax expense due to:		
Foreign tax rate differential	(4)	(59)
(Over)/under provision in prior year	189	529
Other non-taxable items	(849)	(1,032)
Income tax expense on the profit	62,988	86,238

(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

	2017 $'000	2016 $'000
Deferred tax asset balance comprises temporary differences attributable to:		
Employee benefits	3,549	3,224
Share based payments and accrued expenses	235	400
Provision for indirect claims handling costs	5,651	6,339
	9,435	9,963
Net deferred tax		
Balance at 1 January	9,963	10,593
(Debited)/credited to the statement of comprehensive income	(528)	(462)
Under/(over) provision of prior year tax	–	(168)
Closing balance at 31 December	9,435	9,963

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 2001 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
2016 final dividend	14.0	71.3	8 March 2017	30%	100%
2017 interim dividend	12.0	61.1	30 August 2017	30%	100%
2017 special dividend	2.0	10.2	30 August 2017	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
2017 final dividend	12	59.1	16 March 2018	30%	100%

(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.

	31 December 2017 $'000	31 December 2016 $'000
Franking credits available for subsequent financial periods based on a tax rate of 30%	6,897	5,560

After taking into account the impact of franking on the final dividend recommended by the Board since year end, but not recognised as a liability at year end, the franking account balance will have a deficit of ($18,424,000) (2016: ($25,002,000)).

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 EPS

Accounting policies

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

Diluted EPS 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 EPS have been calculated using the weighted average and dilutive number of shares outstanding during the year of 502,276,000. The difference between basic and diluted EPS is caused by the granting of potentially dilutive securities such as share rights, options and restricted share units (RSUs).

	31 December 2017	31 December 2016
Basic EPS (cents per share)	29.7	37.2
Diluted EPS (cents per share)	29.7	37.1

(a) Reconciliation of earnings used in calculating EPS

	31 December 2017 $'000	31 December 2016 $'000
Profit after tax	149,174	203,094
Profit used in calculating basic and diluted EPS	149,174	203,094

(b) Reconciliation of weighted average number of ordinary shares used in calculating EPS

	31 December 2017 $'000	31 December 2016 $'000
Weighted average number of ordinary shares on issue	502,276	545,276
Weighted average number of shares used in the calculation of basic EPS	502,276	545,276
Weighted average number of dilutive potential ordinary shares		
Bonus element of shares	893	1,673
Weighted average number of shares used in the calculation of diluted EPS	503,169	546,949

Notes to the financial statements (continued)

4. Insurance contracts

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.

4.1 Net claims incurred

(a) Claims analysis

	31 December 2017 $'000	31 December 2016 $'000
Gross claims incurred	155,115	166,536
Reinsurance and other recoveries revenue	(4,271)	(6,853)
Net borrower recoveries recognised	(9,070)	(900)
Net claims incurred	141,774	158,783

Net claims incurred decreased $17.0 million from $158.8 million in FY16 to $141.8 million in FY17, primarily driven by a favourable movement in non-reinsurance recoveries on paid claims.

(b) Claims development

	2017			2016		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Direct	259,418	(110,052)	149,366	254,952	(94,234)	160,718
Inwards reinsurance	14,661	(8,912)	5,749	9,863	(4,045)	5,818
Gross claims incurred – undiscounted	274,079	(118,964)	155,115	264,815	(98,279)	166,536
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted	(507)	(3,764)	(4,271)	(812)	(6,041)	(6,853)
Net borrower recoveries recognised	(1,076)	(7,994)	(9,070)	(107)	(793)	(900)
Net claims incurred	272,496	(130,722)	141,774	263,938	(105,155)	158,783

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.

	31 December 2017 $'000	31 December 2016 $'000
Balance at 1 January	80,163	71,040
Deferral of reinsurance premium on current year contracts	206,011	147,638
Expensing/reversing of reinsurance premium previously deferred	(140,749)	(138,515)
Balance as at 31 December	145,425	80,163
Current	70,425	68,524
Non-current	75,000	11,639
	145,425	80,163

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 and Note 4.9 Actuarial assumptions and methods for further detailed information.

	31 December 2017 $'000	31 December 2016 $'000
Opening balance at 1 January	141,997	145,075
Acquisition costs incurred in year	65,446	52,864
Amortisation charge	(55,652)	(55,942)
Balance as at 31 December	151,791	141,997
Current	39,292	51,273
Non-current	112,499	90,724
	151,791	141,997

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, incurred but not reported (IBNR) and the expected direct and indirect costs of settling those claims. Outstanding claims are assessed by estimating the ultimate cost of settling delinquencies, which includes IBNR and settlement costs, using statistics based on past experience and trends. Changes in outstanding claims are recognised in profit or loss in the reporting period in which the estimates are changed.

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

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

	2017 $'000	2016 $'000
Central estimate	300,375	314,428
Risk margin	39,304	41,118
Gross outstanding claims	339,679	355,546

(a) Reconciliation of changes in outstanding claims

	2017 $'000	2016 $'000
Opening balance at 1 January	355,546	276,983
Current period net claims incurred	141,774	158,783
Movement in non-reinsurance and borrower recoveries	(10,862)	5,644
Claims paid	(146,779)	(85,864)
Balance at 31 December	339,679	355,546
Current	254,730	273,251
Non-current	84,949	82,295
	339,679	355,546

Notes to the financial statements (continued)

(b) Claims development

2017 Underwriting years	Prior years[1] $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	Total $'000
At end of year of underwrite	213,762	8,438	4,393	701	992	1,079	1,021	777	1,424	860	1,162	234,609
One year later:	189,494	44,511	19,629	7,004	6,668	7,805	6,825	12,917	6,803	8,620		310,276
Two years later	191,144	47,593	36,755	15,005	10,997	11,246	20,870	20,319	16,711			370,640
Three years later	152,040	52,953	47,621	9,744	9,989	24,535	29,722	21,130				347,734
Four years later	92,535	79,244	24,386	8,107	15,925	43,917	28,494					292,608
Five years later	96,078	31,875	16,589	23,971	23,182	34,634						226,329
Six years later	77,930	22,638	40,761	11,717	14,669							167,715
Seven years later	22,642	23,698	12,537	10,923								69,800
Eight years later	(13,083)	8,579	18,916									14,412
Nine years later	(36,013)	13,597										(22,416)
All future years	(30,052)											(27,082)
Net incurred to date	956,477	333,126	221,587	87,172	82,422	123,216	86,932	55,143	24,938	9,480	1,162	1,981,655
Net paid to date	922,905	303,734	186,095	67,878	54,481	73,311	35,799	17,661	3,372	254	44	1,665,534
Outstanding claims provision at 31 December 2017	35,350	29,812	35,748	19,389	28,016	50,005	51,184	37,507	21,571	9,227	1,119	318,928
Recoveries on paid claims at 31 December 2017	1,777	418	256	93	75	101	49	24	7	–	–	2,800

[1] Prior 2008 underwriting years.

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

[1] Prior 2007 underwriting years.

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

	2017 $'000	2016 $'000
Closing outstanding claims provision per claims development table	**318,928**	333,832
Non-reinsurance recoveries	**20,751**	21,714
Gross closing outstanding claims provision	**339,679**	355,546

4.5 Reinsurance and non-reinsurance recoveries

Accounting policies

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.

	2017 $'000	2016 $'000
Opening balance	**34,414**	28,770
Movement of non-reinsurance recoveries	**(962)**	4,744
Net borrower recoveries receivable recognised	**(9,900)**	900
Closing balance	**23,552**	34,414

When claims are paid, the Group typically obtains a legally enforceable judgement against borrowers for the amount of the loss incurred. The Group 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.

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

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

	31 December 2017 $'000	31 December 2016 $'000
Balance at 1 January	**1,177,801**	1,320,590
Premiums incepted during the year	**368,963**	381,910
Premiums earned during the year	**(438,210)**	(524,699)
Balance as at 31 December	**1,108,554**	1,177,801
Current	**240,352**	377,680
Non-current	**868,202**	800,121
	1,108,554	1,177,801

Notes to the financial statements (continued)

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 (2016: 70th percentile), includes a risk margin of 14 per cent (2016: 14 per cent). The 70 per cent probability of adequacy (PoA) represented by the liability adequacy test (LAT) differs from the 75 per cent 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.

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 12 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 annual 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.

The review of the premium earning scale is based on an annual analysis of a number of factors including the historical pattern of claims incurred, the pattern of policy cancellations, economic outlook and policyholder risk profile. The estimate for unearned premiums is established on the basis of this earning scale. Changes to earnings curve assumptions, which in turn impact the timing of the recognition of unearned premium and DAC, are recognized prospectively. Changes are recommended by the Appointed Actuary when the results of the annual analysis indicate an ongoing change in the pattern of emergence of risk.

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 sometime 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

(a) Outstanding claims

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 mortgagee in possession (MIP) but a claim has not yet been submitted, a case estimate based approach is used utilising the current outstanding loan balance including accumulated arrears adjusted for selling costs, the most recent property valuation, or an estimate thereof, and any amounts not eligible to be claimed.

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

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

In applying this formula:

- The outstanding loan amount insured is the total outstanding amount on those loans advised to the 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 LVR ratio, loan size band, the region in which the mortgaged property is located, mortgagor groups, property price appreciation since inception, 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, house price appreciation (HPA) band and number of payments in arrears taking into account the average mix of effects of the other explanatory factors on the balance date. Additional loadings may be placed on these factors according to the geographic location, loan balance, external dispute resolution (those borrowers accessing ombudsman services or seeking legal representation) and the lender, to adjust for shorter-term expectations of frequency.

Severity

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

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

- Average frequency factor is 34 per cent (2016: 34 per cent)
- Average severity factor is 25 per cent (2016: 24 per cent)

IBNR

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

Risk margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims over and above the central estimate determined on the bases set out above. The overall margin adopted by the 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 per cent (2016: 14 per cent) of net central estimate has been assumed and is intended to achieve a 75 per cent PoA.

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

The weighted average term to settlement, which is estimated to be 19 months (2016: 19 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.

Various scenarios regarding key economics including HPA, unemployment and mortgage, as well as the upper and lower bounds of a 95 per cent confidence interval of frequency outcomes are applied as sensitivity factors. The impact of applying the sensitivities is asymmetric around the central estimate due to the assumed asymmetry of the distribution of outcomes of the net outstanding claim liabilities.

Impact on outstanding claims liabilities to changes in key variables

	Outstanding claims liability		Premium liability		Total liability	
Underwriting year	$m	%	$m	%	$m	%
Base	318		841		1,159	
Ultimate loss ratio						
Upside economics	(2)	(1)	(106)	(13)	(108)	(9)
Downside economic – 5% house price depreciation (HPD), increase in mortgage rates (MR)	8	3	51	6	59	5
Downside economic – 10% HPD, increase in MR	14	4	111	13	125	11
Units downside – 15% HPD for units (NSW, QLD, VIC)	13	4	110	13	123	11
Economic model	58	18	(114)	(14)	(56)	(5)
Arrears frequency model						
+5% HPA estimate	(15)	(5)			(15)	(1)
-5% HPA estimate	16	5			16	1
-10% HPA estimate	33	10			33	3
5% Parameter estimate confidence interval	(6)	(2)			(6)	0
95% Parameter estimate confidence interval	5	2			5	0
Discount rate						
+1.0%			(26)	(3)	(26)	(2)
-1.0%			28	3	28	2

Claims handling expenses

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

(b) Unearned premium

The assessment of future recognition of unearned premium is an inherently uncertain process involving assumptions concerning the discontinuance and pattern of the incidence of risk. When deciding an appropriate earning pattern to apply at the start of an underwriting year, consideration is given to:

- The emergence of claims and their cost for historical underwriting years;
- The economic outlook for key economic variables (interest rates, house prices and unemployment) at the time the policy was written; and
- Policyholder risk profile, determined by characteristics such as location, LVR at underwriting, type of dwelling, loan type and type of interest repayment.

Over the term of a policy, changes in economic conditions invariably lead to a difference between the expected and actual risk emergence pattern. Over time, these differences may be sizeable and, as business is cyclical, these may build up over successive periods. The earnings curves is revised when experience indicates such differences are ongoing.

The 2017 annual review process recommended a modification to the earnings pattern. This has been applied to the recognition of revenue in the income statement from 1 October 2017, and in subsequent reporting periods. Given the size of Unearned Premium, any changes to the earnings pattern are likely to have a significant impact on results in any given year. The changes applied to the premium earning pattern as part of the 2017 review process negatively impacted NEP by $37.3 million.

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.

The following companies comprise the APRA Level 2 Group as at 31 December 2017:

Genworth Financial Mortgage Insurance Pty Limited
Genworth Financial Mortgage Indemnity Limited
Balmoral Insurance Company Limited

The calculation for PCA for the APRA Level 2 Group provided below is based on the APRA Level 2 Group requirements.

	31 December 2017 $'000	31 December 2016 $'000
Tier 1 capital		
Paid-up ordinary shares	1,303,151	1,354,034
Other reserves	(474,031)	(473,171)
Retained earnings	1,093,068	1,086,517
Less: Deductions	(19,858)	(20,826)
Net (deficit)/surplus relating to insurance liabilities	(9,967)	66,223
Net Tier 1 capital	1,892,363	2,012,777
Tier 2 capital	200,000	200,000
Total capital base	2,092,363	2,212,777
Insurance risk charge	221,731	229,807
Insurance concentration risk charge	761,423	1,095,275
Asset risk charge	137,642	111,002
Operational risk charge	27,996	29,954
Aggregation benefit	(62,089)	(52,158)
Total PCA	1,086,703	1,413,880
PCA coverage	1.93x	1.57x

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 (PCR), 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 2 August 2017, the Company announced its intention to commence, with effect from 21 August 2017, an on-market share buy-back program for shares up to a maximum equivalent value of $100 million. Refer to Note 5.3 Equity for further information.

(b) Ratings capital

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 19 March 2017, S&P reaffirmed Genworth Financial Mortgage Insurance Pty Limited's (GFMI) financial strength rating at 'A+', revising the outlook from 'stable' to 'negative'. On 6 September 2017, S&P reaffirmed the 'A+' ratings and maintained the outlook at 'negative'.

Fitch Ratings

On 13 September 2017, Fitch reaffirmed Genworth Financial Mortgage Insurance Pty Limited'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.

Notes to the financial statements (continued)

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.

		31 December 2017 $'000	31 December 2016 $'000
Subordinated notes			
$200 million subordinated notes	(A)	200,000	200,000
Less: capitalised transaction costs		(2,965)	(4,028)
		197,035	195,972

(A) 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 cent 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.

5.3 Equity

(a) Share capital

	31 December 2017 $'000	31 December 2016 $'000
Issued fully paid capital		
Opening balance	1,354,034	1,556,470
Buy-back shares, net of transaction costs	(50,883)	–
Capital reduction	–	(202,436)
Balance at 31 December	1,303,151	1,354,034

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.

An ordinary share entitles its holder to one vote, either in person or by proxy, at a meeting of the Company.

On-market buy-back

On 2 August 2017, the Company announced its intention to commence, with effect from 21 August 2017, an on-market share buy-back program for shares up to a maximum equivalent value of $100 million. As at 31 December 2017 the Company acquired 17,013,668 shares for a total consideration of $51 million.

Capital reduction and share consolidation

On 1 June 2016, $202 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 the Company's shares into 0.8555 shares. Following the completion of the share consolidation the total number of shares on issue was 509,365,050 ordinary shares.

(b) Share-based payment reserve

	31 December 2017 $'000	31 December 2016 $'000
Opening balance	3,389	5,521
Share-based payment expense	3,284	1,441
Share-based payment settled	(4,145)	(3,514)
Share-based payment expense to be recharged back to the major shareholder	–	(59)
Closing balance	2,528	3,389

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

Notes to the financial statements (continued)

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

	31 December 2017 $'000	31 December 2016 $'000
The estimated future amounts of operating lease commitments not provided for in the financial statements are payable:		
Within one year	3,901	6,362
One year or later and no later than five years	16,111	3,773
More than five years	2,305	–
	22,317	10,135

Contingencies

There were no contingent liabilities as at 31 December 2017.

5.5 Other reserves

	31 December 2017 $'000	31 December 2016 $'000
Other reserves	(476,559)	(476,559)

The balance represents reserves recognised from the reorganisation of the intragroup debt and equity arrangements with the Company became the holding company of the group. 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.

Notes to the financial statements (continued)

Section 6 Operating assets and liabilities

6.1 Intangibles

The intangibles balance represents software development expenditure.

Accounting policies

Acquired software

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

Internally developed capitalised software

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

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

Impairment assessment

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

	31 December 2017 $'000	31 December 2016 $'000
Cost		
Balance at 1 January	26,248	24,754
Additions	493	1,513
Disposals	(1,478)	(19)
Closing balance at 31 December	25,263	26,248
Accumulated amortisation and impairment losses		
Balance at 1 January	(24,242)	(23,728)
Amortisation	(409)	(532)
Disposals	689	18
Closing balance at 31 December	(23,962)	(24,242)
Total net intangibles	1,301	2,006

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.

	31 December 2017 $'000	31 December 2016 $'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.

	31 December 2017 $'000	31 December 2016 $'000
Annual leave	**2,594**	2,493
Long service leave	**4,202**	3,920
	6,796	6,413
Current	**4,914**	4,711
Non-current	**1,882**	1,702
	6,796	6,413

As at the balance date there were 216 employees (2016: 223).

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.

	31 December 2017 $'000	31 December 2016 $'000
Trade and other receivables	2,808	1,592
Related party receivables	9,713	2,157
	12,521	3,749
Current	12,521	3,749

Included in the related party receivables are the balances related to taxes receivable to the head entity of $10,153,000 (2016: $2,877,000). 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.

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.

	31 December 2017 $'000	31 December 2016 $'000
Accrued expenses	24,286	22,983
Interest (receivable)/payable	(57)	32
Trade creditors and other payables	7,424	14,096
	31,653	37,111
Current	31,653	37,111
Non-current	–	–
	31,653	37,111

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:

	2017 $'000	2016 $'000
Cash assets	43,025	57,634

Notes to the financial statements (continued)

Section 7 Other disclosures

7.1 Parent entity disclosures

	2017 $'000	2016 $'000
Result of the parent entity		
Profit for the year	221,418	220,644
Total comprehensive income for the year	221,418	220,644
Financial position of parent entity		
Current assets	124,774	128,778
Total assets	1,939,801	1,942,162
Current liabilities	2,353	32,034
Total liabilities	2,353	32,034
Net assets	1,937,448	1,910,128
Total equity of the parent entity comprising of:		
Share capital	1,303,151	1,354,034
Retained earnings	198,140	119,344
Share based payment	1,482	2,075
Other reserves	434,675	434,675
Total equity	1,937,448	1,910,128

7.2 Auditor's remuneration

	31 December 2017 $	31 December 2016 $
Audit and review of financial statements	747,541	654,165
Regulatory audit services	81,721	76,480
	829,262	730,645
Non-assurance services	13,500	43,000
	842,762	773,645

7.3 KMP 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	Executive KMP
David Foster	Andrew Cormack
Anthony Gill	Steven Degetto (appointed 17 July 2017)
Ian MacDonald	Tobin Fonseca
Gai McGrath	Luke Oxenham
Georgette Nicholas	
Leon Roday	
Stuart Take	
Gayle Tollifson	
Jerome Upton	

The key management personnel compensation is:

	31 December 2017 $'000	31 December 2016 $'000
Short-term employee benefits	5,108	5,306
Post-employment benefits	227	501
Equity compensation benefits	1,117	1,267
	6,452	7,074

Notes to the financial statements (continued)

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 (GFI) 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 per cent 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 2017. 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 $3,974,000 (2016: $5,462,000) for the year ended 31 December 2017. There is a payable balance of $373,000 (2016: $452,000) as at 31 December 2017.

Share buy-back

GFI participated in on-market sale transactions during the buy-back program to maintain the approximately 52 per cent stake in the Group. GFI has sold 8.9 millions of shares for a total consideration of $25.8 million as at 31 December 2017. Refer to Note 5.3 Equity for further details.

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.

Major shareholder and its ultimate parent entity

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

In October 2016, GFI and China Oceanwide announced that they had entered into a definitive agreement under which China Oceanwide 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. In November 2017, GFI announced that GFI and China Oceanwide continue to work towards satisfying the closing conditions of their previously announced proposed transaction as soon as possible.

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	2017	2016
Genworth Financial Mortgage Insurance Holdings Pty Limited [1]	Australia	Ordinary	–	100
Genworth Financial Mortgage Insurance Pty Limited	Australia	Ordinary	100	100
Genworth Financial Services Pty Limited [1]	Australia	Ordinary	–	100
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100
Genworth Financial Mortgage Insurance Finance Pty Limited [1]	Australia	Ordinary	–	100
Genworth Financial Mortgage Insurance Finance Holdings Pty Limited [1]	Australia	Ordinary	–	100
Genworth Financial New Holdings Pty Limited [1]	Australia	Ordinary	–	100
Genworth Financial Australia Holdings, LLC1 [1]	Australia	Ordinary	–	100
Balmoral Insurance Company Limited	Bermuda	Ordinary	100	–

1 The entities were deregistered during the year.

Notes to the financial statements (continued)

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.

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.

Share Rights Plan grant date	Available to	Vesting period	Total ($)
7 May 2015	Nominated employees	Four equal tranches vested on first anniversary of grant date	509,967
6 May 2016	Nominated employees	Four equal tranches vested on first anniversary of grant date	499,030
1 March 2017	Nominated employees	Four equal tranches vested on first anniversary of grant date	492,910

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:

	2017	2016	2015	2014
Grant date	1 March 2017	6 May 2016	7 May 2015	21 May 2014
Share price on grant date ($)	$2.81	$3.00	$3.09	$2.95
Dividend yield	8.6%	11.36%	11.16%	7.8%
Risk free rate (%)	Tranche 1: 1.83% Tranche 2: 2.00% Tranche 3: 2.15% Tranche 4: 2.29%	Tranche 1: 1.57% Tranche 2: 1.57% Tranche 3: 1.57% Tranche 4: 1.80%	Tranche 1: 2.03% Tranche 2: 2.03% Tranche 3: 2.20% Tranche 4: 2.35%	Tranche 1: 2.60% Tranche 2: 2.71% Tranche 3: 3.08%
Vesting dates	Tranche 1: 1 March 2018 Tranche 2: 1 March 2019 Tranche 3: 1 March 2020 Tranche 4: 1 March 2021	Tranche 1: 1 March 2017 Tranche 2: 1 March 2018 Tranche 3: 1 March 2019 Tranche 4: 1 March 2020	Tranche 1: 1 March 2016 Tranche 2: 1 March 2017 Tranche 3: 1 March 2018 Tranche 4: 1 March 2019	Tranche 1: 20 May 2016 Tranche 2: 20 May 2017 Tranche 3: 20 May 2018

Notes to the financial statements (continued)

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:

2017 Grant date	Balance at 1 January 2017 number	Granted in the year number	Exercised in the year* number	Cancelled/ forfeited in the year number	Balance at 31 December 2017 number	Vested and exercisable at end of the year number
21 May 2014	844,020	–	(423,052)	(126,624)	294,344	–
21 May 2014	54,665	–	(54,665)	–	–	–
7 May 2015	99,528	–	(35,543)	(12,049)	51,936	–
22 June 2015	5,803	–	(1,934)	–	3,869	–
6 May 2016	271,714	–	(117,490)	–	154,224	–
1 March 2017	–	382,344[1]	(703)	(18,267)	363,374	–
Total	1,275,730	382,344	(633,387)	(156,940)	867,747	–

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

[1] The number of share rights granted in the year includes 139,169 shares rights, representing the deferred short-term incentive component under the 2016 remuneration program.

2016 Grant date	Balance at 1 January 2016 number	Granted in the year number	Exercised in the year * number	Cancelled/ forfeited in the year number	Balance at 31 December 2016 number	Vested and exercisable at end of the year 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	–
22 June 2015	7,737	–	(1,934)	–	5,803	–
6 May 2016	–	280,281[2]	–	(8,567)	271,714	–
Total	2,773,215	280,281	(894,081)	(883,685)	1,275,730	–

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

[2] 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.

LTI

The Group implemented an LTI plan for executive KMP which is performance-oriented and reflects local market practice.

LTI grant date	Nature of award	Vesting conditions	Total ($)
7 May 2015	share rights	• continuous active employment for four years from grant date.	1,822,777
6 May 2016	share rights	• Subject to performance conditions	1,729,230
1 March 2017	share rights		1,873,986

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 12 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 per cent is subject to a ROE performance condition. The Group's three year average ROE is tested against target ROEs over a three year period.
  - 50 per cent is subject to a relative TSR performance condition. 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 2017 long term incentive plan by $2.899, being the 10-day VWAP of the Company's share price following the release of full-year results for 2016, 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.

Notes to the financial statements (continued)

The fair value of the share rights for LTI 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.

	2017	2016
Grant date	1 March 2017	6 May 2016
Share price on grant date ($)	$2.81	$3.00
Dividend yield	8.60%	11.36%
Volatility	35.00%	35.00%
Correlation	A correlation matrix for the ASX 200 (excluding resource companies) has been used	A correlation matrix for the ASX 200 (excluding resource companies) has been used
Risk free rate (%)	2.0%	1.57%
Vesting date	31 December 2020	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 2017 number	Granted in the year number	Exercised in the year number	Cancelled/ forfeited in the year number	Balance at 31 December 2017 number	Vested and exercisable at end of the year number
7 May 2015	177,497	–	–	(61,301)	116,196	–
6 May 2016	742,159	–	–	(93,171)	648,988	–
1 March 2017	–	646,425	–	–	646,425	–
17 July 2017		75,025			75,025	
Total	919,656	721,450	–	(154,472)	1,486,634	–

Grant date	Balance at 1 January 2016 number	Granted in the year number	Exercised in the year number	Cancelled/ forfeited in the year number	Balance at 31 December 2016 number	Vested and exercisable at end of the year number
7 May 2015	525,834	–	–	(348,337)	177,497	–
6 May 2016	–	742,159	–	–	742,159	–
Total	525,834	742,159	–	(348,337)	919,656	–

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:

2017 Grant date	Expiry date	Exercise price	Balance at 1 January 2017	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2017	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
13/02/2008	13/02/2018	29.19	7,800	–	–	(4,800)	3,000	3,000
19/08/2009	31/07/2017	9.98	2,450	–	–	(2,450)	–	–
19/08/2009	13/02/2018	9.98	6,288	–	–	–	6,288	6,288
10/02/2010	10/02/2020	18.15	30,600	–	–	(3,600)	27,000	18,305
09/02/2011	09/02/2021	16.32	29,000	–	–	–	29,000	29,000
14/02/2012	14/02/2022	11.37	38,100	–	–	–	38,100	38,100
15/02/2013	15/02/2023	11.60	37,000	–	–	–	37,000	37,000
20/02/2014	20/02/2024	19.50	19,500	–	–	–	19,500	14,625
Total			170,738	–	–	(10,850)	159,888	146,318
Weighted average exercise price			$15.15	–	–	$21.19	14.74	14.37

Notes to the financial statements (continued)

Balance at 1 January 2017 is adjusted for options granted in prior periods to employees who transferred into/out of the Group during the year.

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

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

2017 Grant date	Balance at 1 January 2017	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2017	Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
15/02/2013	**21,507**	**–**	**(21,170)**	**(337)**	**–**	**–**
2/12/2013	**2,500**	**–**	**(2,500)**	**–**	**–**	**–**
20/2/2014	**34,140**	**–**	**(17,070)**	**(4,324)**	**12,746**	**–**
20/03/2015	**1,350**	**–**	**–**	**–**	**1,350**	**–**
Total	**59,497**	**–**	**(40,740)**	**(4,661)**	**14,096**	**–**

Balance at 1 January 2017 is adjusted for options granted in prior periods to employees who transferred into/out of the Group during the year.

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	–
20/2/2014	91,942	–	(29,870)	(28,632)	33,440	–
20/03/2015	1,350	–	–	–	1,350	–
Total	199,207	–	(86,369)	(54,653)	58,185	–

7.7 Events subsequent to reporting date

On 7 February 2018, the directors declared a 100 per cent franked final dividend of 12 cents per share totalling $59,100,000. As this 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 2017.

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 46 to 81 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 2017 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.

The directors have been given the declarations required by section 295A of the Corporations Act from the CEO and the CFO for the financial year ended 31 December 2017.

Signed in accordance with a resolution of the directors.

Ian MacDonald
Chairman

Dated 28 February 2018.

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 2017 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 2017;
- 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 judgement, 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.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Independent auditor's report (continued)

to the shareholders of Genworth Mortgage Insurance Australia Limited

Valuation of gross outstanding claims liability – $340m

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 LVR. 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; and • 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 sensitivities performed by the Group to assist in evaluating the relevance and reasonableness of findings and conclusions; • assessing the consistency of information (such as claims experience and trends) across the Group's operations.

Independent auditor's report (continued)

to the shareholders of Genworth Mortgage Insurance Australia Limited

NEP – $370m and unearned premium liability – $1,109m

The key audit matter	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.	The assessment of claims emergence as it relates to the earnings curve is performed by the Group on an annual basis. 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 in their assessment. 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 sensitivity of the adopted earnings curve to key model assumptions 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 the Company'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 7 February 2018. 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 controls 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.

Independent auditor's report (continued)

to the shareholders of Genworth Mortgage Insurance Australia Limited

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 & Assurance Standards Board website at: auasb.gov.au/auditors_files/ar1.pdf

This description forms part of our auditor's report.

Report on the remuneration report

Opinion

In our opinion, the Remuneration report of the Company for the year ended 31 December 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' 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 on pages 26 to 42 of the directors' report for the year ended 31 December 2017.

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
28 February 2018

Shareholder information

Unless otherwise stated, the information in this section is current as at 1 February 2018.

Annual General Meeting

The 2018 AGM of Genworth Mortgage Insurance Australia Limited will be held on Thursday, 10 May 2018, at The Mint, 10 Macquarie Street, Sydney NSW 2000. The AGM will be webcast live on the internet at 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 2018 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, 3 May 2018. 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.

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, 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 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[1]	
Company financial year end	31 December 2017
Full year results and dividend announced	7 February 2018
Record date for dividend	2 March 2018
Dividend paid	16 March 2018
Annual Report and Notice of AGM mail out commences	22 March 2018
AGM	10 May 2018

[1] Note: some dates may be subject to change.

Ordinary shares and share rights

As at 1 February 2018, the Company had on issue the following equity securities:

- 492,351,382 ordinary shares
- 2,319,583 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.

Shareholder information (continued)

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)	255,795,304	51.95%
2	HSBC Custody Nominees (Australia) Limited	92,908,421	18.87%
3	J P Morgan Nominees Australia Limited	28,758,346	5.84%
4	Citicorp Nominees Pty Limited	21,174,685	4.30%
5	National Nominees Limited	17,524,143	3.56%
6	BNP Paribas Noms Pty Ltd <DRP>	11,079,380	2.25%
7	Brazil Farming Pty Ltd	4,850,000	0.99%
8	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	3,885,667	0.79%
9	Argo Investments Limited	3,208,901	0.65%
10	HSBC Custody Nominees (Australia) Limited-GSCO ECA	1,125,740	0.23%
11	SBN Nominees Pty Limited <10004 A/C>	1,082,000	0.22%
12	Mr Stephen Craig Jermyn <Jermyn Family S/Fund A/C>	1,026,600	0.21%
13	National Nominees Limited <DB A/C>	928,776	0.19%
14	BNP Paribas Nominees Pty Ltd <Agency Lending Collateral>	829,000	0.17%
15	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	608,374	0.12%
16	CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	527,785	0.11%
17	National Exchange Pty Ltd	500,000	0.10%
18	Prudential Nominees Pty Ltd	500,000	0.10%
19	Mr Hardip Singh & Mrs Manjeet Kaur & Miss Harleen Kaur <Hardip Super Fund A/C>	442,543	0.09%
20	FJP Pty Ltd <Palazzo Family S/F A/C>	438,750	0.09%
	Total for top 20	**447,194,415**	**90.83%**

Distribution schedule of holders of ordinary shares

Range	Number of holders	Number of shares	% of issued shares
1 – 1,000	1,131	578,566	0.12
1,001 – 5,000	1,797	5,062,539	1.03
5,001 – 10,000	919	7,068,591	1.44
10,001 – 100,000	920	23,246,712	4.72
100,001 and over	65	456,394,974	92.70
Total	**4,832**	**492,351,382**	**100.00**

Shareholders with less than a marketable parcel of 172 ordinary shares ($2.92 on 1 February 2018) is 207 and they hold 12,807 ordinary shares

Dividend details

Share class	Dividend	Franking	Amount per share	Payment date
Ordinary	Interim	Fully franked	12.0 cents	30 August 2017
Ordinary	Special	Fully franked	2.0 cents	30 August 2017
Ordinary	Final	Fully franked	12.0 cents	16 March 2018

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	1	545	0.02
1,001 – 5,000	1	1,888	0.08
5,001 – 10,000	12	77,391	3.34
10,001 – 100,000	24	659,780	28.44
100,001 and over	4	1,579,979	68.12
Total	**42**	**2,319,583**	**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 Australia share rights plan

646,373 shares were purchased on-market for the purposes of the Genworth Australia Share Rights Plan during the period from 1 January 2017 to 31 December 2017 at an average price of $2.95 per share.

On-market share buy-back

On 1 February 2018, there was a current on-market share buy-back (Appendix 3C lodged with ASX on 2 August 2017).

Glossary

Term	Description
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
Combined ratio	The sum of the loss ratio and the expense ratio
China Oceanwide	China Oceanwide Holdings Group Co., Ltd
the Company	Genworth Mortgage Insurance Australia Limited ABN 72 154 890 730
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 benefits 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
GLIC	Genworth Life Insurance Co.
Gross earned premium or **GEP**	The earned premium for a given period prior to any outward reinsurance expense
GWP	Gross written premium
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
Loss ratio	Calculated by dividing the net claims incurred by the NEP
LTI	Long-term incentive

Glossary (continued)

Term	Description
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
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 or **Plan**	Genworth Share Rights Plan
RMF	Risk management framework
RMS	Risk management strategy
RSU	Restricted stock units
S&P	Standard & Poor's Ratings Services
Shareholder Agreement	The shareholder 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
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.
Underlying NPAT	Underlying NPAT excludes the after-tax impact of unrealised gains or losses and impairment 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

Prudence Milne, General Counsel & Company Secretary

Assistant Company Secretary

Brady Weissel, Corporate Counsel & Assistant Company Secretary

Share registry

Link Market Services Limited
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680 George Street
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Telephone: +61 1300 554 474
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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 hard copy of the Annual Report, please contact the Share Registry.
Electronic versions of the Annual Report are available at investor.genworth.com.au.

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