Genworth

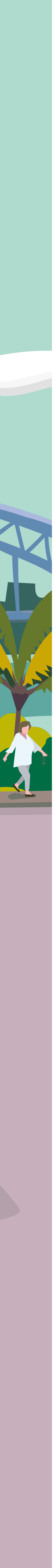
2018 ANNUAL REPORT

Illustration by
Australian artist and
illustrator Mike Watts

Contents

Genworth is a leading provider of Lenders Mortgage Insurance (LMI) in Australia and a capital and risk management solutions provider. 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 help Australians achieve the dream of home ownership by being a leading provider of risk and capital 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.

2018 at a glance

59,821
new policies written

Valued at
$22.2b

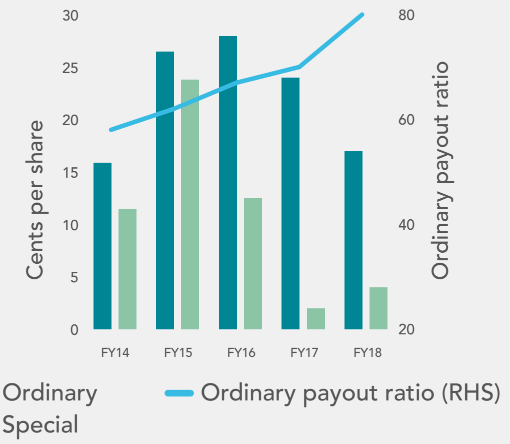
+1.3m
policies in-force

Valued at
+$300b

Market capitalisation
~$1b

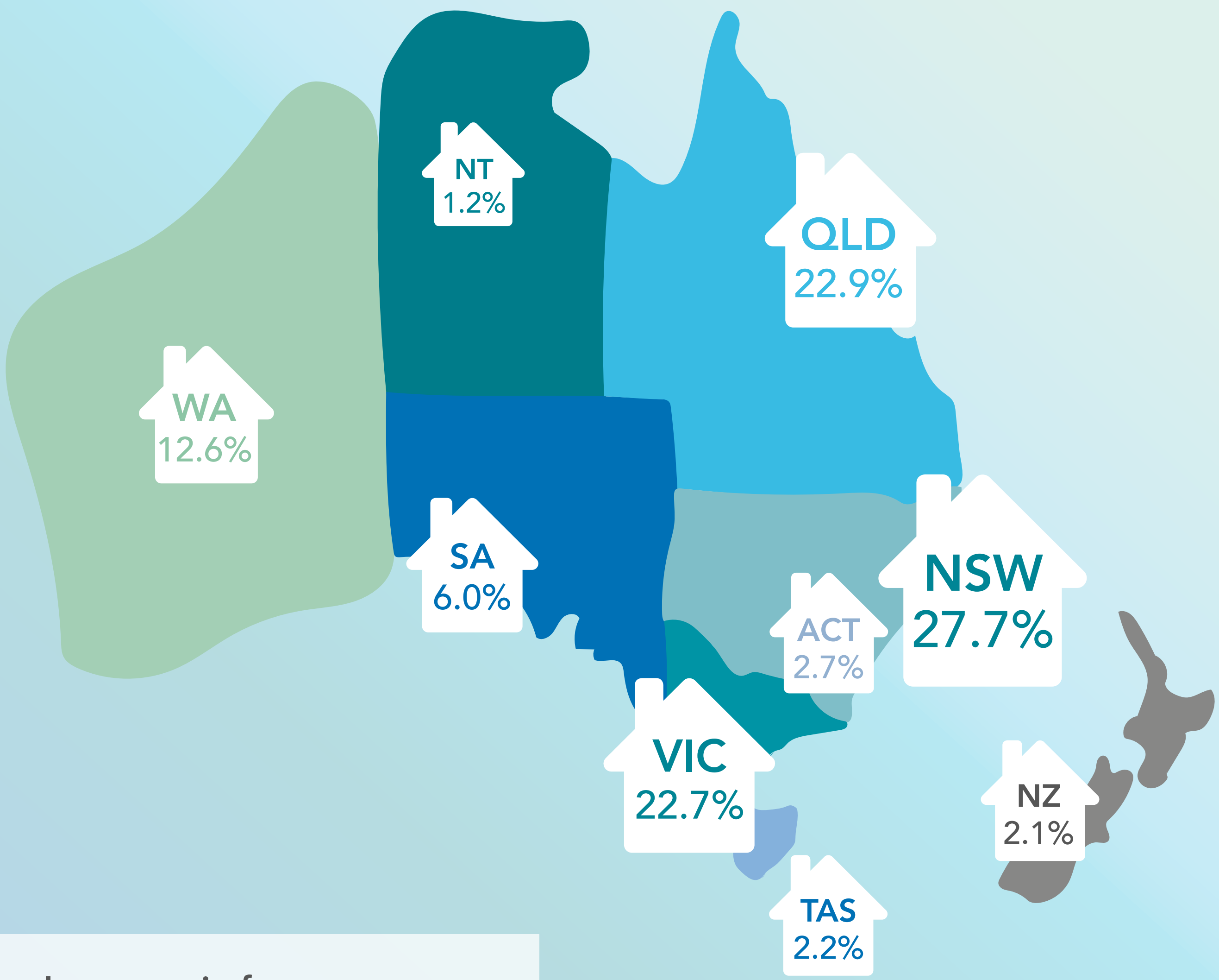
Share buyback
$149m

Dividends
(cents per share)

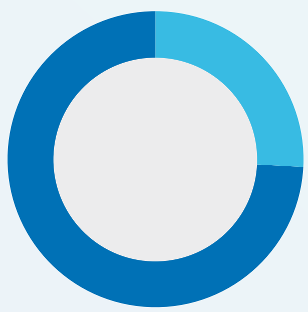


All figures as at 31 December 2018.

Portfolio of insured home loans by state



Insurance in-force by home loan type



Investment	**26**%
Owner-occupied	**74**%

All figures as at 31 December 2018.

Supporting the dream of home ownership

3.3m

policies written since 2000

Valued at

$761b

50+ years

of facilitating home ownership

Currently supporting

+100 lenders

in Australia

52,649

borrowers experiencing financial stress and hardship assisted since 2013 [1]

1 Via our lender customers.

Sustainability:
Community and our people

2018 highlights

30% Club
GROWTH THROUGH DIVERSITY

Commitment to female representation on the Board[1]

Genworth fundraising initiatives
$250,000+

Total time spent on volunteering
1,260+ hours

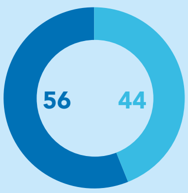
Number of volunteer events in corporate calendar
33

Employees participating in volunteering programs
63%

Borrower hardship cases assisted
9,873

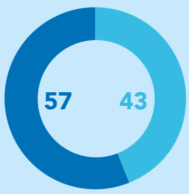
Diversity and inclusion (%)

Board



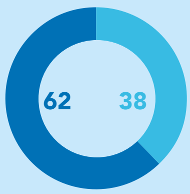
In 2017
33% Female
67% Male

Senior Leadership Team (CEO and direct reports)



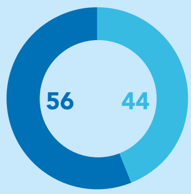
In 2017
38% Female
62% Male

Other management roles (excl. the Senior Leadership Team)



In 2017
35% Female
65% Male

Overall



In 2017
45% Female
55% Male

Female
Male

All figures as at 31 December 2018.

1 The 30% Club was formed by the Australian Institute of Company Directors to recognise those companies with greater than 30 per cent female representation on the Board that are committed to achieving better gender balance in organisations.

Chairman's message

Dear Shareholders

I am pleased to present Genworth's 2018 Annual Report. As Australia's leading lenders mortgage insurer for over 50 years, Genworth's portfolio today includes more than $300 billion of underwritten residential mortgages, representing over 1.3 million policies which have enabled people to buy homes in Australia.

I am proud to report that in 2018 we continued our track record of facilitating the dream of home ownership and supporting the strength of the Australian residential mortgage market, by issuing 59,821 insurance policies that have secured home loans valued at $22.2 billion.

Over the past year significant work has been undertaken to position our Company as the leading provider of customer focused capital and risk management solutions in the Australian residential mortgage market. We have also continued our work with lender customers, regulators and policy leaders to promote a stronger and more sustainable housing market in Australia.

Genworth's strategy

We are operating in a dynamic market subject to technological, regulatory and competitive changes. Within this environment, lender and borrower expectations are evolving. Our organisation is focused on addressing these evolving expectations by leveraging our strong core competencies and extensive experience in managing credit default risk.

In 2017, we commenced a Strategic Program of Work designed to redefine our core business model and diversify our revenue streams in ways that complement our traditional LMI offering. Throughout 2018, our management team made significant progress in executing the Strategic Program of Work by implementing initiatives that broaden our suite of product offerings, deliver underwriting and operating efficiencies and leverage our data and partnerships to add value along the mortgage chain.

Pleasingly these initiatives are delivering tangible benefits as evidenced by the growth in our Company's GWP in FY18 and are explained in greater detail in our CEO's report.

Our Strategic Program of Work will continue in 2019 with a focus on delivering sustainable shareholder returns over the medium to long term. We look forward to keeping you updated on our progress.

Financial position

Our Company's financial position is solid. At the end of FY18, we maintained a regulatory capital base of $1.9 billion and a coverage ratio of 1.94 times the Prescribed Capital Amount (PCA) on a Group (Level 2) basis.

Whilst FY18 Statutory Net Profit after Tax was down 49.3% on FY17 and Underlying Net Profit after Tax was down 45.1%, this primarily reflects the impact of the lengthening of time over which revenue is recognised, following the annual earnings curve review in 2017. As explained in our CEO's report, the 2017 Earnings Curve Review does not impact the quantum of revenue expected to be earned over time, from premiums already written. The fundamentals of Genworth's business remain strong, with the 24.7% increase in GWP in FY18 demonstrating the traction that our Strategic Program of Work is having in delivering growth.

We also have a high quality investment portfolio. As at 31 December 2018, Genworth's cash and investment portfolio had a market value of $3.2 billion, of which more than 83% was held in cash and highly rated fixed interest securities. In addition, the Company had $122.8 million invested in Australian equities and $535.0 million invested in non-Australian dollar income securities, reflecting our strategy to diversify and improve investment returns on the portfolio within acceptable risk tolerances.

Capital management

During 2018 we remained focused on actively managing Genworth's capital position. We recognise that Genworth's solvency ratio is greater than the Board's targeted range of 1.32 – 1.44 times the PCA. As a result, throughout 2018 we embarked on various capital management initiatives designed to bring the Company's solvency ratio more in line with our target range.

Initiatives implemented include declaring fully franked ordinary dividends of 17.0 cents per share (representing a payout ratio of 80.0%, up from 70.3% in FY17) and declaring a fully franked special dividend of 4.0 cents per share. The combined ordinary and special dividends for the 2018 financial year equate to a 9.6% yield based on the share price of $2.19 as at 31 December 2018.

In addition, two on-market share buybacks to the value of $149.1 million were completed and a new on-market share buy-back was announced in February 2019 as part of our ongoing capital management program.

The Board and management continue to proactively evaluate excess capital and its potential uses.

Looking ahead

Looking ahead, the broader home loan market continues to be responsive to regulatory changes with lenders applying stricter serviceability criteria whilst also looking for opportunities to grow their business by attracting borrowers. Within this environment, Genworth remains committed to the Australian housing market and our customer value proposition remains strong.

Our management team is proactively engaging with lender customers to identify growth opportunities, provide capital support, reduce risk exposures and deliver underwriting and loss mitigation services that help our customers maintain quality residential lending standards.

Corporate social responsibility

The Board places significant importance on corporate social responsibility, culture, governance and accountability. 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.

The Board believes that, to have a sustainable business, Genworth needs to continue to make a positive contribution to the communities that it is part of. We appreciate that by facilitating home ownership, our product offerings impact Australia's social fabric.

Since 2000, our Company has issued 3.3 million insurance policies facilitating loans that have enabled home purchases in Australia. In 2018, Genworth assisted 9,873 (FY17: 9,621) borrowers experiencing financial stress and hardship via our lender customers.

We remain committed to supporting the Australian housing market in good times and in times of stress not only by helping people buy homes sooner but also by helping to keep them in their homes. This commitment is embedded in our sustainability framework which is founded on four pillars: Environment; Our People; Community and Marketplace.

In 2018 we issued our first Sustainability Report setting out our achievements across these four pillars. We will develop our future sustainability targets based on this framework and will report annually on progress made.

Governance, culture and accountability are areas of focus for the Board and were key themes in the Banking Royal Commission. During the year, the Board conducted a culture and risk governance self assessment which included a review of Genworth's governance, culture, leadership, accountability and remuneration practices as well as the Company's issues management, risk and compliance practices. The Board's assessment concluded that, following significant investment in our values, culture and leadership over the past two years, Genworth has made substantial progress in maturing its culture, governance and accountability practices. We recognise that our assessment reflects a point in time and that the Company's practices continue to evolve. The Board is committed to undertaking assessments on a regular basis to address further insights that may arise.

Diversity and inclusion in the workplace is another key focus. The Board has resolved to adopt best practice regarding Board diversity by setting a target of having 30% female representation on the Board by the end of 2018. I am pleased to report that we have met that target with 44% women on the Board currently.

Conclusion

Our Company's role in facilitating the Australian dream of home ownership and supporting the strength and stability of the Australian financial system is more important today than ever. Our continued success would not be possible without our Senior Leadership Team led by our CEO and 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
Chairman

Regulatory capital base

$1.9b

Fully franked ordinary dividend

17cps

Share buy-back of

$149m

Fully franked special dividend

4cps

Chief Executive Officer's report

Genworth continues to progress its strategic journey with 2018 being a transitional year for the Company. While our business was impacted by moderating market conditions and the timing of recognising revenue from the change in the earnings curve in 2017, we continued to support home ownership by facilitating home loans and saw tangible benefits from our Strategic Program of Work.

Importantly, we continued our track record of delivering attractive shareholder returns in the form of fully franked ordinary dividends (17.0 cents per share) and a fully franked special dividend (4.0 cents per share) and completed the $149.1 million on-market buy-back of shares as part of our capital management program.

Strategic update

Our Strategic Program of Work is designed to redefine our core business model and deliver growth, by positioning Genworth as the leading provider of customer focused capital and risk management solutions.

Throughout 2018 we made significant progress in diversifying our revenue streams via product enhancement and innovation. This included the launch of a new bespoke risk management offering utilising a Bermudan insurance entity (established by Genworth in 2017) which is a complementary risk management tool to traditional LMI cover. Other new product offerings launched include a new risk management solution for borrower-paid LMI in the less than 80% LVR segment on a micro markets basis and excess of loss insurance agreements with a number of customers, resulting in Genworth now having commercial arrangements in place with all five of Australia's largest banks. The increase in GWP that we delivered in FY18 is largely attributable to these new product offerings and is testament to our ability to deliver sustainable growth.

We have also concentrated on identifying innovative ways to access new distribution channels for LMI. This resulted in a small equity stake in Tic:Toc, a fintech in the online origination space which operates as a direct to consumer and partner platform. Genworth has also been appointed as Tic:Toc's exclusive LMI provider.

Another area of focus has been to deliver greater underwriting risk insights and operating efficiencies through investment in technology. Our investment included the development and launch of a new automated underwriting decision platform and a data-only submission channel (eLMI portal). These two initiatives enable LMI approval decisions to be made in real time and provide data that facilitates more insightful underwriting risk assessment.

We continue to execute our Strategic Program of Work and in the year ahead will focus on leveraging technology and our extensive high LVR expertise and data to add value across the mortgage value chain.

Financial performance

Our 2018 financial results reflect the 12 month impact of the change made in the earnings curve in 2017 (versus a three month impact in the fourth quarter of FY17) as well as moderating housing market conditions. Throughout the year, we saw tightening credit standards, increases in mortgage interest rates and continued house price moderation, with 14 consecutive months of abating home prices. On a more pleasing note, despite these conditions, we saw the average high LVR market level off at around 20%, following a number of years of contraction.

Within this environment our FY18 Statutory Net Profit after Tax was $75.7 million (FY17: $149.2 million) and our Underlying Net Profit After Tax was $93.9 million (FY17: $171.1 million). Both reflect the impact of the change in 2017 of timing of revenue recognition from the seasoning of books. Whilst the 2017 Earnings Curve Review has had the effect of lengthening the average duration of the period over which we recognise our revenue, it does not affect the total amount of revenue expected to be earned over time from premiums already written.

New Insurance Written (NIW) declined 7.1% to $22.2 billion in FY18 (from $23.9 billion in the prior year), noting that NIW does not include our excess of loss insurance or the new business written through our Bermudan entity. This business is included in the reported Gross Written Premium (GWP) for the year.

Our GWP was up 24.7% from $369.0 million in FY17 to $460.2 million in FY18. The increase in GWP reflects business written as part of Genworth's new product offerings as well as an increase in the second half of the year in our traditional LMI flow business.

In respect of our new bespoke offering written through our Bermudan entity, we have retained $170.2 million in risk and placed the remainder with a consortium of global reinsurers. Excluding the premium paid to these global reinsurers as part of this transaction, our GWP increased 8.4%.

Net Earned Premium (NEP) fell 24.1% from $370.5 million in FY17 to $281.3 million in FY18, reflecting the $108.9 million 12 month impact of the 2017 Earnings Curve Review versus the $37.3 million three month impact in FY17. Without the 2017 Earnings Curve Review adjustment, NEP would have declined 4.3% in FY18.

Whilst New Delinquencies and Paid Claims both decreased in FY18, we experienced a softening in cure rates with the second half of the year delivering a more subdued seasonal uplift than has historically been the experience in our business.

Our Net Claims Incurred for the year was $145.9 million (FY17: $141.8 million), including the favourable impact of non-reinsurance recoveries on paid claims in both FY17 ($9.1 million) and FY18 ($1.4 million). Excluding these favourable impacts, Net Claims Incurred decreased in FY18.

Our Loss Ratio in FY18 was 51.9%, up from 38.3% in FY17, again highlighting the impact of lower NEP due to the 2017 Earnings Curve Review. Without this adjustment, our FY18 loss ratio was 37.4% versus 34.8% in FY17.

The lower NEP also impacted our expense ratio which was 33.6% in FY18 compared with 29.3% in FY17.

Investment income for FY18 was $77.9 million and included a pre-tax realised gain of $17.4 million ($12.2 million after tax) and a mark-to-market loss of $26.1 million ($18.3 million after-tax). After adjusting for the mark-to-market movements, the 2018 investment return was 2.60% p.a., down from 2.82% p.a. in 2017, reflecting the fact that returns are being pressured by the low interest environment

Capital management

Since listing on the Australian Securities Exchange in 2014, we have maintained a strong focus on ensuring we have an optimal capital structure. Over that time, we have paid out all after tax profits and returned more than $1 billion to shareholders via ordinary and special dividends and other capital management initiatives such as buybacks and capital reductions.

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. We estimate that we had approximately 30% of the Australian HLVR flow LMI market by NIW in 2018.

On 21 November 2018, we announced that we had renewed our Supply and Service Contract with National Australia Bank (NAB) for the provision of LMI for NAB's broker business. The new contract is for a term of two years and meets our return on equity profile and risk appetite.

In the fourth quarter of 2018, we entered a contract with a new customer for the provision of excess of loss insurance coverage. This transaction has resulted in Genworth having commercial relationships with all of Australia's five largest banks.

Ratings

Our credit ratings reflect the financial strength of Genworth and demonstrate to stakeholders our claim paying ability. On 25 May 2018, Standard & Poor's Ratings Services reaffirmed Genworth Financial Mortgage Insurance Pty Limited's financial strength rating at 'A+' and outlook as 'negative'.

On 11 October 2018, 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 2018, we continued to work 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 loss absorption and capital tools.

Chief Executive Officer's report (continued)

Corporate social responsibility

Our Strategic Program of Work reflects the importance we place on making a positive contribution to the social, economic and environmental wellbeing of the communities that we are part of. We have a broad range of stakeholders and believe we have a role to play in facilitating the Australian dream of home ownership and supporting the strength and stability of the Australian financial system. As the Chairman noted, to enable us to achieve this, we have established a sustainability framework covering four key pillars: Environment, Our People, Community and Marketplace. We report on an annual basis in our Sustainability Report on our performance against each of these pillars.

As part of our Sustainability program we have established a set of values designed to develop and enhance our corporate culture. These values include acting with integrity; being accountable; adapting to change; focusing on the customer and working collaboratively as one team.

We continue to be committed to contributing to community causes that are aligned to our mission and vision of supporting the dream of home ownership.

In 2018, Genworth provided sponsored grants totalling $150,000 to its three community partners: St Vincent de Paul Society, The Forsight Foundation and OzHarvest Limited. Throughout the year, we also donated $104,000 to charitable fundraising initiatives and continued our "Milestone Anniversary Donation" program. 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 established staff volunteering and donation programs for our employees. These include "Workplace Giving", "Make-a-Difference Day", "Employee Sponsored Donations" and a new addition in 2018, "Employee Aware & Care". During 2018, more than 63% of our employees participated in volunteering programs with our community partners, contributing 1,268 hours to programs such as OzHarvest's "Cooking for a Cause", the Forsight Foundation's "Backyard Blitz" and programs run by St. Vincent de Paul for the homeless.

Diversity and inclusion in the workplace is another integral component of our Sustainability program. We value the contribution that people with different backgrounds, experience and perspectives bring to our organisation. Importantly, we believe that our people should reflect the diversity of our customers and the communities they serve.

Management has set a goal of maintaining female representation of at least 40% on the Senior Leadership Team and is striving for diversity across all leadership roles. As at 31 December 2018, 43% of the Senior Leadership Team was female and 38% of other management roles were filled by females.

Our efforts in this regard have been recognised by the Australian Property Institute, which selected Genworth as its "Winner of the Workplace Diversity and Culture Award" in 2018. The Workplace Gender Equality Agency (WGEA) recognised our commitment to diversity and inclusion by awarding Genworth the WGEA Employer of Choice for Gender Equality citation for the fourth consecutive year and I continue to be a WGEA pay gender equality ambassador.

Diversity and inclusion

2019 outlook

Whilst the economic outlook for 2019 remains positive, the recent moderation in housing market conditions is expected to continue, reflecting pressure on lending due to tightening credit conditions, weak wage growth and increased levels of new housing supply.

We expect our financial performance in 2019 to reflect these moderating housing market conditions and to continue to be impacted by the timing of recognising revenue as books season. As a result, NEP is expected to be within the range of -5% to +5% of FY18 NEP and the full year loss ratio is expected to be between 45% and 55%.

The Board continues to target an ordinary dividend payout ratio range of 50% to 80% of Underlying NPAT.

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

Conclusion

Whilst we envisage 2019 will be another dynamic year for our business, we remain focused on maintaining the momentum of our Strategic Program of Work by implementing initiatives that grow our GWP and diversify our revenue streams. We also remain committed to actively managing our capital position.

We have a resilient business and our Company is well capitalised with a solid balance sheet and net tangible assets of approximately $3.94 per share (as at 31 December 2018). We have a track record of delivering solid profits and strong capital returns to shareholders which we are committed to continuing.

Thank you

I would like to thank the Chairman and my fellow Directors for their ongoing support during 2018. 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 Nicholas
Chief Executive Officer and Managing Director

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 2018 and the auditor's report thereon.

Board of Directors

The directors of the Company as at 31 December 2018 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 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 Chief Executive Officer in February 2016 after four months as Acting Chief Executive Officer following joining the business as Chief Financial Officer in February 2014. Georgette brings more than 30 years of financial and industry experience to the role including her extensive global experience in lenders mortgage insurance.

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

Previously, Georgette worked as Senior Vice President, Investor Relations, Public Relations and Rating Agencies with Genworth Financial. Other senior roles she has held at Genworth include Chief Financial Officer, US Mortgage Insurance where she was a key member of the management team leading the business through the economic downturn in the US housing market and the GFC, and Global Controller for both US Mortgage Insurance and International Segments.

Before joining Genworth in 2005, Georgette was a Director at Deloitte 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.

Georgette is a director of Insurance Council of Australia (effective 3 May 2018).

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 Chief Executive Officer 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 the Chairman of Thorn Group Limited (since 1 November 2014 and appointed Chairman since 1 February 2018), the Regional Investment Corporation and Motorcycle Holdings Limited (appointed 8 March 2015, Interim Chairman since 25 July 2016 and Chairman since 23 August 2016), and a director of G8 Education Limited (since 1 February 2013).

Former public directorship at Kina Securities Limited (appointed 30 July 2013 and ceased 23 May 2018).

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

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, Toyota Finance Australia Limited and Steadfast Group (since 1 June 2018).

She is also Chair of Humanitix and a member of the Fundraising and Appeals Committee of The Salvation Army.

Former public directorship at Investa Listed Funds Management Limited as responsible entity of Investa Office Fund (appointed 17 October 2017 and ceased 14 December 2018).

Corporate governance statement

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

Christine Patton

Director, Independent, Genworth Financial designee

Christine was appointed to the Board on 1 September 2018. She is a member of Genworth's Audit and Capital & Investment Committees.

Christine began her career as a tax lawyer and recently returned to Australia after 26 years working in Bermuda in roles including Group General Counsel of NYSE listed reinsurer PartnerRe Ltd and Senior Legal Counsel and Assistant Secretary to the Board at Bank of NT Butterfield & Son Ltd. She has more than 30 years' career experience in capital markets, banking and reinsurance.

Christine has a Bachelor of Laws and a Bachelor of Commerce from the University of Queensland and is a Graduate of the Australian Institute of Company Directors.

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.

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 40 years of financial services experience and has been an Independent Director since 2006.

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

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

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

She is currently a director of RAC Insurance Pty Limited, RAA Insurance Holdings Limited and RAA Insurance Limited.

Jerome Upton

Director, Genworth Financial designee

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

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

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

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

Duncan West

Director, Independent

Duncan was appointed to the Board on 1 September 2018. He is Chairman of Genworth's Capital & Investment Committee and is a member of Genworth's Risk and Technology Committees.

Duncan has more than 30 years of insurance industry experience having held senior executive positions at Royal Sun Alliance Group PLC, Promina Group Limited, CGU Limited and MLC Limited.

He is currently a Director of Challenger Limited (since 10 September 2018), Chairman of Hollard Insurance Company Pty Limited, Lawcover Insurance Pty Ltd, Pacific Life Re (Australia) Pty Ltd and Habitat for Humanity Australia and is a Director of Avant Group Holdings Limited.

Duncan is a Graduate of the Australian Institute of Company Directors, a Fellow of the Chartered Insurance Institute and a Senior Associate of the Australia and New Zealand Institute of Insurance and Finance.

He holds a Bachelor of Science (Economics) from the University of Hull, UK.

Senior leadership team

Georgette Nicholas

Chief Executive Officer and Managing Director

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

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

Previously, Georgette worked as Senior Vice President, Investor Relations, Public Relations and Rating Agencies with Genworth Financial. Other senior roles she has held at Genworth include Chief Financial Officer, US Mortgage Insurance where she was a key member of the management team leading the business through the economic downturn in the US housing market and the GFC, and Global Controller for both US Mortgage Insurance and International Segments.

Before joining Genworth in 2005, Georgette was a Director at Deloitte & Touche providing services to companies in the insurance, real estate and broadcasting industries. Earlier in her career, Georgette worked with Freed Maxick Sachs & Murphy, a top 100 accounting firm, in Buffalo, New York where she focused on audit, acquisitions and mergers, tax and strategic financial planning and prior to this as an Internal Auditor at ITT Corporation.

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

Georgette is a director of Insurance Council of Australia (effective 3 May 2018).

Michael Bencsik

Chief Financial Officer

Michael joined Genworth as Chief Financial Officer in February 2019. Michael has over 30 years' of financial and strategic experience in banking and insurance across Australia, New Zealand, United Kingdom, Europe, the Middle East, and Asia Pacific.

Prior to joining Genworth, Michael held the role of Deputy Chief Financial Officer, Bank of Queensland and Chief Financial Officer, St Andrew's Insurance Australia. Prior to this he held various senior finance and strategy roles across leading financial service institutions including Lloyds TSB Bank (UK), Westpac Banking Corporation, HSBC Bank Australia Limited, HSBC Holdings (UK), Commonwealth Bank of Australia and First Abu Dhabi Bank (UAE).

Michael is a Fellow Certified Practising Accountant and Fellow Chartered Certified Accountant (UK) with a Bachelor of Commerce from the University of NSW and a Masters of Business Administration from Macquarie University. He is a Fellow of the Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors.

Andrew Cormack

Chief Risk Officer

Andy joined Genworth Australia as Chief Risk Officer in October 2015. Andy brings more than 20 years of experience to his role as CRO having held senior management responsibility for teams in finance, commercial, product development and risk for markets across Europe. He is passionate about delivering best in class risk and actuarial models and building and developing high achieving teams engaged in delivering business objectives. Before joining Genworth Australia, Andy worked with Genworth's Mortgage Insurance business in Europe, where he held the role of Chief Risk Officer with responsibility for the risk and actuarial teams. Prior to this he held various senior management positions including Senior Vice President Risk, SVP Commercial, SVP Product Development & Marketing and Chief Financial Officer.

Earlier in his career, Andy spent 3 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 a specialist auditor responsible for Lloyds Insurance Market.

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

Brad Dean

Head of Strategy and Innovation

Brad joined Genworth in August 2002 and was appointed Head of Strategy and Innovation in October 2018. Brad is a seasoned leader, bringing more than 20 years of experience to his role from across a range of insurance, health care equipment and distribution businesses with responsibility for new business development, mergers and acquisitions, strategic planning, and financial management and controls.

Prior to his current role, Brad held the positions of Head of Product Development and Corporate Development Leader at Genworth where he was responsible for formulating and executing product and corporate development strategies, including leading Genworth's IPO project which resulted in Genworth Australia being listed on the Australian Securities Exchange in 2014. Between 2002 and 2007, Brad held the position of Chief Financial Officer of Genworth Australia.

Prior to his roles at Genworth, Brad worked at a chartered accounting firm for five years followed by a further five years at GE in multiple finance roles.

Brad is a Chartered Accountant and has a Bachelor of Commerce from Wollongong University with a double major of Accounting and Economics.

Steven Degetto

Chief Commercial Officer

Steven joined Genworth as Chief Commercial Officer in July 2017. He has over 25 years' experience in banking and insurance. With a strong track record of developing partnerships across a broad range of financial institutions, Steven's strategic thinking, deep understanding of customer opportunities and challenges coupled with his commercial acumen have enabled him to consistently deliver customer value and insights.

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.

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.

Kate Svoboda

Chief Human Resources Officer

Kate was appointed as Chief Human Resources Officer in September 2016 after 6 months as Acting Chief Human Resources Officer. Kate joined Genworth as Human Resources Director in 2015. Kate brings to the role more than 16 years professional experience working in human resources, the majority of which has been in financial services.

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

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

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

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, predominantly for high LVR residential mortgage loans.

Organisation overview

About Genworth

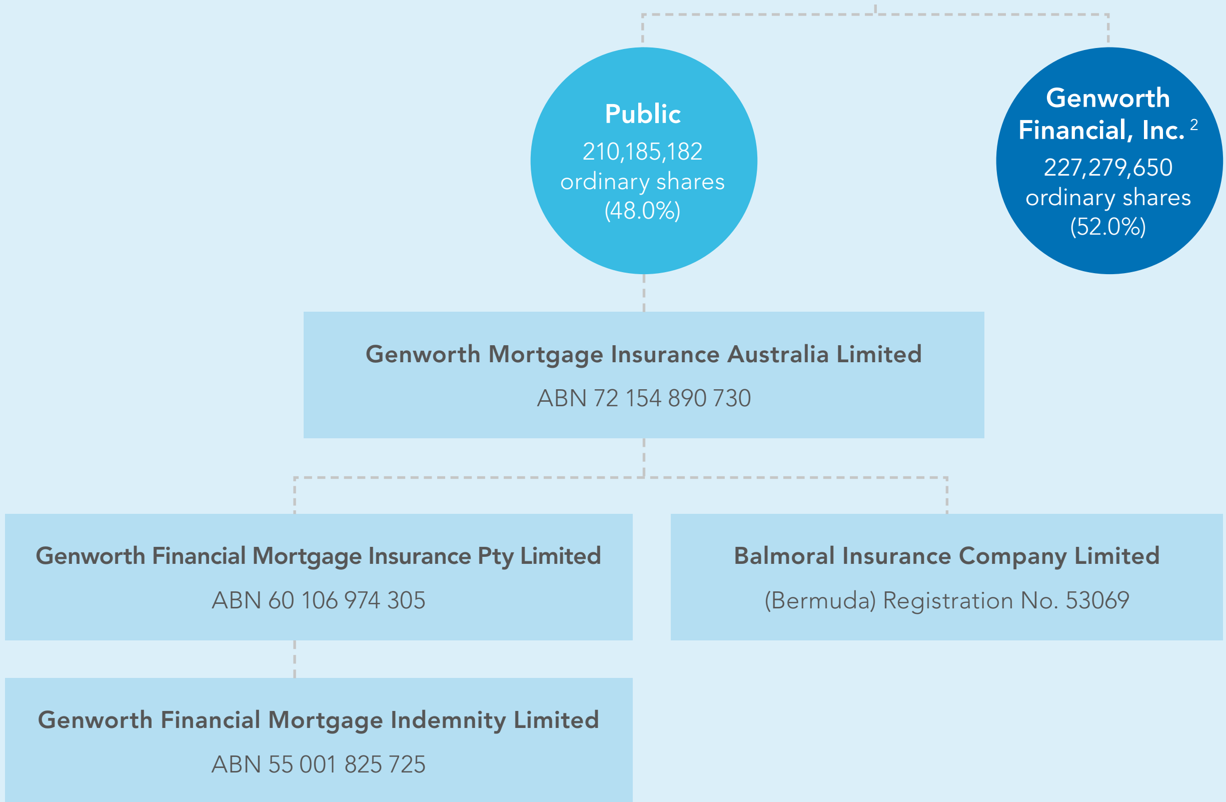
Genworth is the leading LMI provider in the Australian LMI market and a provider of capital and risk management solutions in the Australian residential mortgage market. The Group estimates that it had approximately 30 per cent of the Australian HLVR LMI market[1] by NIW for the 12 months ended 31 December 2018. Genworth is listed on the ASX under ticker code GMA.

During FY18, 54.9 million shares were purchased for a total consideration of $149.1 million, as part of the Group's on-market share buy-back programs. Genworth Financial, Inc. participated in these on-market share buy-back programs to maintain its approximately 52 per cent stake in the Group. As at 31 December 2018, the number of Genworth shares on issue was 437.5 million.

The Group has the following corporate structure as at 31 December 2018:

During 2017 the Company established an offshore entity based 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 loan to value ratios.

437,464,832 ordinary shares (100%)



1 Estimates based on flow market.
2 Genworth Financial, Inc.'s interest in the Company is held indirectly through the Genworth Financial Group.

Business model

Genworth's business activities

Our mission is to support Australian home ownership by providing capital and risk management solutions to our customers in residential mortgage lending. Genworth's primary business activity is the provision of LMI to our lender customers.

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 shareholder value.

Genworth shareholder value chain

Genworth shareholder value chain					
Products and income		**Costs**		**Distribution**	
Premium income	**Financial income**	**Claims**	**Underwriting and other costs**	**Dividends**	**Retained earnings**
– Customers – NIW – GWP – Revenue recognition	– Interest rates – Investment income	– Delinquencies – Reserving – Payment of claims	– Underwriting fees – Amortisation of customer acquisition related costs – Marketing costs – Staff and IT costs	– Underlying NPAT – Payout ratio – Special dividends – share buy-backs	
Strategy, risk and capital management					

Products and customers

Genworth continued to offer traditional LMI (Standard LMI, Homebuyer Plus and Business Select) on both a flow and portfolio (bulk) basis. In FY18, Genworth developed and participated in structured transactions, such as providing excess of loss insurance, as well as introducing top cover and limited life cover options.

In FY18 Standard LMI produced 99.6 per cent of total NIW (excluding excess of loss insurance) and 80.3 per cent of GWP was generated from insurance written on a flow and portfolio basis.

During FY18, 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 FY18, Genworth's top two customers accounted for 74.4 per cent of its GWP [1]. The largest customer accounted for 60.1 per cent of its GWP in FY18, as illustrated below.

Lender customer	FY18 GWP [1]
Largest customer	60.1%
Second largest customer	14.3%
Largest customers 3–10	18.8%
All others	6.8%

1 Includes excess of loss insurance.

Our strategy

Genworth's strategic objective over the last two years has been to redefine our core business model. The strategic initiatives implemented allow Genworth to better meet customer needs in a dynamic market environment and deliver profitable growth.

2019 priorities

In 2019, our priorities move to leveraging data and technology to add value across the mortgage value chain. Initiatives include new product launches to diversify the product mix and meet customer needs for alternative mortgage risk management options. In addition, we will enhance the customer experience, leveraging our HLVR expertise of over 50 years and focusing on seamless interactions with our traditional lender customers, as well as new digital lenders.

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

Value proposition:

Product 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.

Strategic enablers

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

2017 and 2018 initiatives	Longer-term initiatives (2019+)
1. Redefine core business model	2. Leverage data and technology to add value across the mortgage value chain
Product enhancement Underwriting efficiency Leverage data and partnerships Operating efficiencies Regulator and policy maker advocacy	Product innovation Enhanced customer experience Leverage HLVR experience and expertise

Delivered initiatives

- Established Bermudan insurance entity
- Real time automated decision platform
- 'Micro markets LMI' launched
- Investment in fintech Tic:Toc
- Bespoke risk management solutions
- Data-only submission channel launched (eLMI portal)

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 or portfolios of loans it will insure or reinsure.

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 medium term business risks are those that could impact the successful execution of the strategy. Genworth maintains active risk mitigation strategies to manage its business risks.

Key risk	Key control/mitigation
Evolving LMI and mortgage default risk landscape Evolving market for mortgage risk and capital solutions gives rise to opportunities and risks. Risk that the evolving market may result in a reduction in new insurance written.	• Strategic plans to leverage new 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 markets LMI'. • Ongoing assessment of risks and 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 gives rise to opportunities and risks. Risk that changing customer dynamics may result in a reduction in new insurance written.	• Strategic plans to leverage new core foundational capabilities. • Customer plans are in place to monitor the execution of priority areas and key customer related activities. • Genworth's product suite includes both standard and non-standard product LMI offerings and excess of loss coverage options. • Regular review of Genworth's 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 Risk that adverse or neutral regulatory changes have the potential to impact Genworth's business model and medium-term 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 Risk relating to a deterioration in the Australian economy and housing market impacting the financial strength and performance outlook of Genworth.	• Product, location and segment risk responses. • Mature reserving and loss forecasting processes. • Active risk portfolio monitoring and responses. • The Board and executive regularly review the risk appetite statement, internal capital settings 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 Risk relating to a downward change in Genworth's financial strength rating by rating agencies.	• 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 Risk that Genworth fails to renew reinsurance contracts as and when they fall due to be renewed.	• Active reinsurance management strategy. • Active management of the reinsurance program by experienced team including leveraging global reinsurance expertise. • Ability to leverage external reinsurance experience.
Risks related to supply and service contracts with customers Risk of unexpected early termination of key customer contracts impacting medium term business performance.	• Customer contract renewal and extension process provides a contractual avenue to address any improvements required. • Genworth's recovery plan guides and facilitates responses to a loss or potential loss of a significant customer (by GWP). • Contractual safeguards are included in customer contracts.
Change in interest rate cycle and risk of mark-to-market loss exposure Risk relating to changing investment market dynamics (such as a change in the interest rate cycle, equity and foreign exchange markets), driving mark-to-market losses.	• Diversification of investment portfolio within the boundaries set by the risk appetite statement. • Capital and Investment Committee governance and oversight. • Risk assessment prior to any change to risk appetite and related changes to the investment policy. • Execution of the derivatives strategy as required.

Operating and financial review

Operating result for the financial year

The Group's key financial measures are summarised in the below table.

Financial performance measures (A$ million)	FY18	FY17
Gross written premium	**460.2**	369.0
Gross earned premium	**356.3**	438.2
Net earned premium	**281.3**	370.5
NPAT	**75.7**	149.2
Underlying NPAT	**93.9**	171.1

Non-IFRS performance metrics	FY18	FY17
Loss ratio (%)	**51.9%**	38.3%
Expense ratio (%)	**33.6%**	29.3%
Combined ratio (%)	**85.4%**	67.5%
Insurance margin (%)	**28.3%**	40.0%
Investment return (%)	**2.6%**	2.8%
ROE (%)	**4.1%**	7.7%
Underlying ROE (%)	**5.2%**	9.0%

The underwriting performance in FY18 reflects:

(a) GWP increased 24.7 per cent, mainly due to new business written pursuant to the Group's Bermudan insurance entity established in 2017 and the new 'micro markets LMI' offering. Net of the premium ceded to a consortium of reinsurers by the Bermudan entity, GWP increased 8.4 per cent in FY18.

(b) NEP decreased 24.1 per cent mainly reflecting the adverse impact of the 2017 Earnings Curve Review (FY18: $108.9 million and FY17: $37.3 million).

(c) The loss ratio increased by 13.6 points reflecting lower NEP in the current year and in line with Group's guidance range of 50.0 per cent to 55.0 per cent.

(d) The expense ratio increased from 29.3 per cent in FY17 to 33.6 per cent in FY18 reflecting lower NEP in the current year, slightly offset by lower other underwriting expenses.

(e) The insurance margin decreased to 28.3 per cent compared to 40.0 per cent for FY17 mainly driven by lower NEP in the year.

Review of financial condition

Financial position

Financial position (A$ million)	FY18	FY17
Cash and investments	3,224.5	3,391.5
Deferred acquisition costs	166.8	151.8
Total assets	**3,590.1**	**3,765.9**
Trade and other payables	51.9	31.7
Outstanding claims reserve	339.1	339.7
Unearned premium	1,214.2	1,108.6
Interest bearing liabilities	198.2	197.0
Total liabilities	**1,852.8**	**1,843.7**
Net assets	**1,737.3**	**1,922.2**

Total assets of the Group as at 31 December 2018 of $3,590.1 million decreased $175.8 million from 31 December 2017. The movement includes:

- $102.1 million decrease in deferred reinsurance expense from the renewal of the treaties. The new treaties provide one-year cover compared to three years previously. Also, two remote layers of reinsurance cover have not been renewed. The decision not to renew these two layers was based on the lack of internal capital credit recognition and reducing probable maximum loss.
- $167.0 million decrease in cash and investments to fund the share buy-back and the payment of the FY17 final and FY18 interim dividends.
- Offset by an increase of $68.0 million in trade and other receivables primarily due to new excess of loss insurance business written in FY18.

The total liabilities of the Group as at 31 December 2018 were $1,852.8 million, up from $1,843.7 million at 31 December 2017. The movement includes:

- Decrease in reinsurance payable from $160.0 million as at 31 December 2017 to $42.2 million as at 31 December 2018, primarily as a result of the renewal of the reinsurance program.
- Increase in unearned premium of $105.6 million reflects the impact of the 2017 Earnings Curve Review ($108.9 million in FY18), new excess of loss insurance business written and the Company's new 'micro markets LMI'.

The equity of the Group as at 31 December 2018 of $1,737.3 million decreased $184.9 million from 31 December 2017. The movement is mainly attributable to various capital management initiatives during FY18 including the payment of $110.6 million of dividends and $149.1 million to fund two on-market share buy-backs. This was offset by $75.7 million in current year earnings.

Capital mix

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, providing strong alignment with regulatory and rating agency models.

At 31 December 2018, the Group's capital mix was:

- Ordinary equity (net of goodwill and intangibles) 89.7 per cent.
- Debt 10.3 per cent.

Operating and financial review (continued)

Capital management

The Group remains strongly capitalised with regulatory capital of $1,948.1 million at 31 December 2018 (FY17: $2,092.4 million). The Group has solvency of 1.94 times the Prescribed Capital Amount (PCA) and a CET1 ratio of 1.74, which continues to be above the Board's targeted solvency range of 1.32–1.44 times the PCA on a level 2 basis.

The table below illustrates the capital position as at 31 December 2018 compared with 31 December 2017.

PCA coverage ratio (Level 2)

(A$ in millions), as at	31 Dec 18	31 Dec 17
Common Equity Tier 1 Capital (incl. net excess technical provisions)	1,748.1	1,892.4
Tier 2 Capital	200.0	200.0
Regulatory capital base	**1,948.1**	**2,092.4**
LMI concentration risk charge (LMICRC)	660.7	761.4
Asset risk charge	124.8	137.6
Insurance risk charge	245.5	221.7
Operational risk charge	31.7	28.0
Aggregation benefit	(56.4)	(62.1)
PCA	**1,006.3**	**1,086.7**
PCA coverage ratio (times)	**1.94x**	**1.93x**

The decrease in CET1 capital in FY18 mainly reflects $110.6 million dividends paid in the year, $149.1 million related to two on-market share buy-backs offset by a $44.0 million increase in the net excess technical provisions and $75.7 million in current period earnings.

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 2018 was $958.1 million based on the closing share price of $2.19.

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 6 February 2019, the Directors declared a 100 per cent franked final dividend of 9.0 cents per share totalling $39.4 million.
- On 6 February 2019, a $100.0 million on-market share buy-back was announced (Appendix 3C lodged with the ASX on 6 February 2019).

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.

Operating and financial review (continued)

Directors

The directors of the Company at any time during, or since the end of, the financial year up to the date of this report are:

Current directors

Ian MacDonald
Georgette Nicholas
David Foster
Gai McGrath
Christine Patton
(appointed as a Director on 1 September 2018)
Stuart Take
Gayle Tollifson
Jerome Upton
Duncan West
(appointed as a Director on 1 September 2018)

Former directors

Anthony (Tony) Gill
(ceased to be a Director on 31 August 2018)
Leon Roday
(ceased to be a Director on 31 August 2018)

Company Secretary

Prudence Milne

Prudence Milne was appointed 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. Prudence 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 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.

Economic overview and outlook

The Australian economy remained on a stable trajectory throughout 2018. The economic growth experienced during the year benefitted the labour market with strong employment levels (particularly in full time jobs) and a reduction in underemployment from historic, elevated levels. Despite the solid economic performance, uncertainty remained within the household sector due to weak wage growth, high debt levels and lower growth in household wealth.

The economic outlook for 2019 remains positive. Continued investment in infrastructure and non-mining sectors combined with anticipated increases in gas production and exports are expected to support ongoing growth. This should promote continued employment growth in 2019, albeit at a slightly slower pace than 2018, resulting in a modest increase in wages and benign inflation growth. Within this environment, the official cash rate is likely to remain on hold throughout 2019, but lending institutions are expected to continue implementing “out-of-cycle” interest rate increases due to higher funding costs.

Housing market moderation continued in 4Q18, closing out 2018 with 14 consecutive months of abating house prices. The downward pressure on national dwelling values was largely confined to Sydney and Melbourne, with Perth continuing to experience challenging market conditions following the end of the mining boom. Genworth expects the moderating trend in housing market conditions to continue for most of 2019, reflecting pressure on lending due to tightened credit conditions, weak wage growth and increased levels of new housing supply. Metropolitan housing markets in Sydney and Melbourne are predicted to lead the trend, whilst the rate of decline in regions linked to the mining resource industry in Queensland and Western Australia is expected to stabilise.

Genworth expects its financial performance in FY19 to continue to be impacted by the 2017 Earnings Curve Review as the books season, as well as ongoing housing market moderation, increases in mortgage interest rates, softening cure rates and tightening credit standards. As a result, NEP is expected to be within the range of -5% to +5% of FY18 NEP and the full year loss ratio is expected to be between 45% and 55%.

Genworth continues to target an ordinary dividend payout ratio range of 50% to 80% of Underlying NPAT.

The full year outlook is subject to market conditions (including volatility in investment markets) as well as unforeseen circumstances or economic events.

Operating and financial review (continued)

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 set out below.

Director	Board: Scheduled Meetings		Board: Unscheduled Meetings		Board: Subcommittee Meetings		Audit Committee [1]		Risk Committee [1]		Capital & Investment Committee [1]		Remuneration & Nominations Committee [1]		Technology Committee [1]	
	A	H [2]	A	H [2]	A	H [2]	A	H [2]	A	H [2]	A	H [2]	A	H [2]	A	H [2]
Ian MacDonald	9	9	7	7	2	2	–	–	–	–	–	–	–	–	–	–
Georgette Nicholas	9	9	7	7	7	7	–	–	–	–	–	–	–	–	–	–
David Foster	9	9	6	7	–	–	–	–	–	–	6	6	5	5	3	3
Anthony Gill [3]	6	6	3	3	–	–	4	4	3	3	4	4	–	–	2	2
Gai McGrath	9	9	6	7	6	6	6	6	5	5	–	–	5	5	3	3
Christine Patton [4]	3	3	4	4	–	–	2	2	–	–	2	2	–	–	–	–
Leon Roday [5]	6	6	3	3	2	2	–	–	–	–	–	–	3	3	–	–
Stuart Take	9	9	7	7	–	–	–	–	5	5	–	–	2	2	–	–
Gayle Tollifson	9	9	5	7	1	1	6	6	5	5	6	6	5	5	–	–
Jerome Upton	9	9	7	7	–	–	6	6	5	5	6	6	–	–	3	3
Duncan West [6]	3	3	3	4	–	–	–	–	2	2	2	2	–	–	1	1

1 All directors are invited to and regularly attend committee meetings. This table reflects attendance of directors that are a member of the relevant committee.
2 Number of meetings held during the period that the director held office.
3 Mr Gill resigned as a director on 31 August 2018.
4 Ms Patton was appointed as a director on 1 September 2018.
5 Mr Roday resigned as a director on 31 August 2018.
6 Mr West was appointed as a director on 1 September 2018.

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 2018 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 2019. 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 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 of $35,000, 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.
- None of the services undermine the general principles relating to auditor independence 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:

	2018 $	2017 $
Audit and review of financial statements	831,138	747,541
Regulatory audit services	88,188	81,721
Non-assurance services – ICAAP triennial review	35,000	13,500
Total paid/payable to KPMG	954,326	842,762

Officers of the Company who are former partners of KPMG

No officer of the Company who is a former partner of KPMG was a partner of KPMG at a time when KPMG undertook an audit of the Company.

Remuneration report

Dear Shareholder,

On behalf of your Board, I am pleased to present our annual remuneration report for the year ended 31 December 2018, and my third as Chairman of the Remuneration and Nominations Committee. The Board and Committee remain committed to designing and delivering competitive and appropriate remuneration through a combination of cash and shares via both short-term and long-term incentive programs which:

1. Drive alignment between the Company's management and its shareholders.
2. Provide a clear link between Company and individual performance and remuneration outcomes.
3. Ensure remuneration outcomes are aligned with Genworth's short and long-term objectives and long-term sustainability.
4. Support strong governance, culture and accountability across Genworth.
5. Enable proactive management of capital structure to optimise returns for shareholders.
6. Recognise the importance of executing on the Company's strategy to transform the business model and deliver a sustainable future for the Company.

Genworth concluded a transitional period in 2018, navigating changing and uncertain mortgage and housing markets while significant progress was made in executing against our Strategic Program of Work. The continuation of initiatives to redefine the core business model has laid the foundation for Genworth to be the leading provider of customer-focused capital and risk management solutions for our lender customers. These initiatives have translated to business improvements such as greater underwriting efficiency, enhanced product offerings, ongoing cost reductions and improvements in portfolio performance. The Company has also continued to execute prudent capital management utilising reinsurance and Tier 2 debt along with returning capital to shareholders through ordinary dividends of 17.0 cents per share, special dividends of 4.0 cents per share and share buy-backs of $149 million in 2018.

The outcomes for variable remuneration in 2018 reflected financial performance below target for both Underlying Net Profit After Tax and Return on Equity related to the moderating housing market. Conversely there was above target performance on capital management and we exceeded expectations associated with the delivery of our Strategic Program of Work, which we are confident will deliver both financial and organisational benefits into the future. The Board has worked to deliver remuneration outcomes for 2018 that appropriately reflect performance outcomes for participants and the value delivered to shareholders:

- Fixed Remuneration adjustments for executive KMP averaged 1.2 per cent for 2019.
- 2018 short-term incentive funding was determined to be 70 per cent of target (Section 3.2).
- The 2016 long-term incentive grant will partially vest in early 2020 (Section 3.3).

In addition, the Board has continued to review our reward practices and programs to ensure a strong link between risk and remuneration outcomes, reflective of ongoing evolving regulatory and community expectations. This included a review of the Company's Remuneration Policy, and initiatives to further strengthen risk and reward governance in 2019. Furthermore, an ongoing program of work continues to be undertaken to embed governance, culture and accountability that supports the long-term sustainability of the organisation and promotes behaviour that is aligned to Genworth's values.

The Board has also considered the structure of the existing long-term incentive (LTI) plan to ensure that the outcomes appropriately reward management for the value created for shareholders, with due regard for executing key strategic initiatives to ensure long-term sustainability and returns, managing capital efficiently and actively returning excess capital to shareholders.

The outcome of this review was that relative total shareholder return (TSR) remains an important strategic measure of Company performance as we move past this period of strategic transition, and the requirement to execute on key strategic objectives. Furthermore, in order to better incentivise effective capital management during a period of ongoing adjustments to the Company's capital structure, return on equity (ROE) is now measured against a regulatory capital target. In relation to the short-term incentive (STI), ROE has been replaced as a financial metric by an assessment of capital optimisation measure, so ROE is no longer duplicated in both the STI and LTI plans. 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 and Nominations Committee

Remuneration report (continued)

1. Executive summary

This report provides shareholders with an overview of Genworth's remuneration governance, strategy, programs and outcomes for Key Management Personnel (KMP) for the year ended 31 December 2018. The 2018 Remuneration Report has been prepared and audited in accordance with the disclosure requirements of the *Corporations Act 2001*. Any unaudited disclosures have been clearly marked as such. The table below provides a concise summary of the remuneration received by executive KMP in 2018. 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 benefits tax (FBT) attributed to insurances/car parking and other non-monetary benefits.

Table 1a: 2018 Remuneration summary table as at 31 December 2018 – unaudited

		Fixed remuneration		At-risk/performance remuneration			
				Short-term incentive (STI)		Long-term incentive (LTI)	
Name and position		Contract TFR [1]	Actual TFR received [2]	STI target	Actual STI awarded [3]	LTI target [4]	LTI vested [5]
Executive KMP							
Georgette Nicholas	2018	$890,000	$878,683	$890,000	$623,000	$870,000	$211,242
Chief Executive Officer (CEO)	2017	$870,000	$866,712	$870,000	$880,000	$850,000	$24,407
William Milner [6]	2018	$322,040	$312,914	$146,622	$87,240	–	$9,924
Acting Chief Financial Officer	2017	–	–	–	–	–	–
Andrew Cormack	2018	$495,000	$493,333	$198,000	$138,600	$242,500	$3,350
Chief Risk Officer (CRO)	2017	$485,000	$485,000	$145,500	$130,000	$242,500	$12,277
Steven Degetto [7]	2018	$435,000	$432,024	$217,500	$175,088	$217,500	–
Chief Commercial Officer (CCO)	2017	$435,000	$200,046	$100,109	$105,000	$217,500	–
Tobin Fonseca	2018	$460,000	$458,333	$230,000	$161,000	$225,000	$207,179
Chief Operating Officer (COO)	2017	$450,000	$450,000	$225,000	$200,000	$225,000	$30,440
Former executive KMP							
Luke Oxenham	2018	$475,000	$181,363	$237,500	–	$225,000	$3,487
Chief Financial Officer (CFO)	2017	$475,000	$470,878	$237,500	$118,750	$225,000	$13,041

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 2018 as a KMP, and is different to contract TFR due to increases as part of the annual remuneration review effective 1 March and part years of service.
3 Actual STI awarded reflects 2018 STI awards (including any amounts delivered as deferred STI, see section 4 for more details).
4 The 2018 LTI Target reflects the dollar value of the LTI grant awarded for the performance period commencing 1 January 2018.
5 The dollar value of the Genworth 2015 LTI plan that vested as at the end of the reporting period, the final tranche of the Key Leaders' IPO grant and vesting of US equity grants as detailed in Table 6c.
6 William Milner was appointed as Acting CFO on 16 February 2018 and became eligible for a higher duties allowance of $54,500 and an STI target of 50%. The STI target is pro-rated to reflect the period during which he was Acting CFO.
7 Steven Degetto commenced employment on 17 July 2017 and the actual TFR and STI figures included in this table for 2017 are reflective of a partial year of 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, the executive director and nominated executives. Please refer to section 7 for details relating to non-executive directors.

Table 1b: Executive KMP in 2018

Name	Position	Term as KMP
Executive KMP		
G Nicholas	CEO	Full year
W Milner	Acting CFO	16 February – 31 December
A Cormack	CRO	Full year
S Degetto	CCO	Full year
T Fonseca[1]	COO	Full year
Former executive KMP		
L Oxenham	Former CFO	1 January – 16 February

1 Mr Fonseca's role was made redundant effective on 31 January 2019. Details of associated termination provisions will be disclosed in the 2019 Annual Report.

2. Remuneration governance, policy and programs

2.1 Governance overview

The Remuneration and 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 the Risk Committee.

2.2 Use of independent remuneration advisors

The Board and the Committee received advice from external advisers EY in 2018. Services included a review of market practices. No remuneration recommendations as defined under the Corporations Act were received in relation to KMP.

2.3 Remuneration policy and strategy

Genworth's remuneration policy details the governance, structure and overall strategy through which Genworth remunerates its employees. Genworth's remuneration strategy is to provide market competitive remuneration programs that help attract, retain and motivate highly talented people who are dedicated to achieving business objectives in a manner that is consistent with the long-term sustainability of the Company, our customers and our 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.

The Board approved a revised remuneration policy in 2018 to strengthen the link between risk culture and remuneration through a number of means including:

- Broadening Board discretion to adjust remuneration in the event of misconduct and risk and compliance breaches, including the introduction of clawback provisions and strengthening of malus provisions associated with variable remuneration.
- Clearer articulation of the different remuneration package elements and associated governance considerations.
- The introduction of a risk health dashboard and strengthening of risk reporting to provide more detail and granularity to support Board governance of performance and remuneration decisions.
- Reinforcing links between remuneration governance and prudent financial and non-financial risk taking and consideration of customer outcomes.

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, including deferral of a portion of Senior Leadership Team (SLT) variable remuneration.
- Linking fixed remuneration increases to individual performance and market benchmarks (eg median of relevant comparator group).
- Ensuring variable remuneration programs and outcomes balance prudent financial and non-financial risk taking with achievement of company objectives and minimise potentially adverse customer outcomes.
- 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 total fixed remuneration (TFR) component, a short-term incentive (STI) component and a long-term incentive (LTI) component. Certain executive KMP also 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.

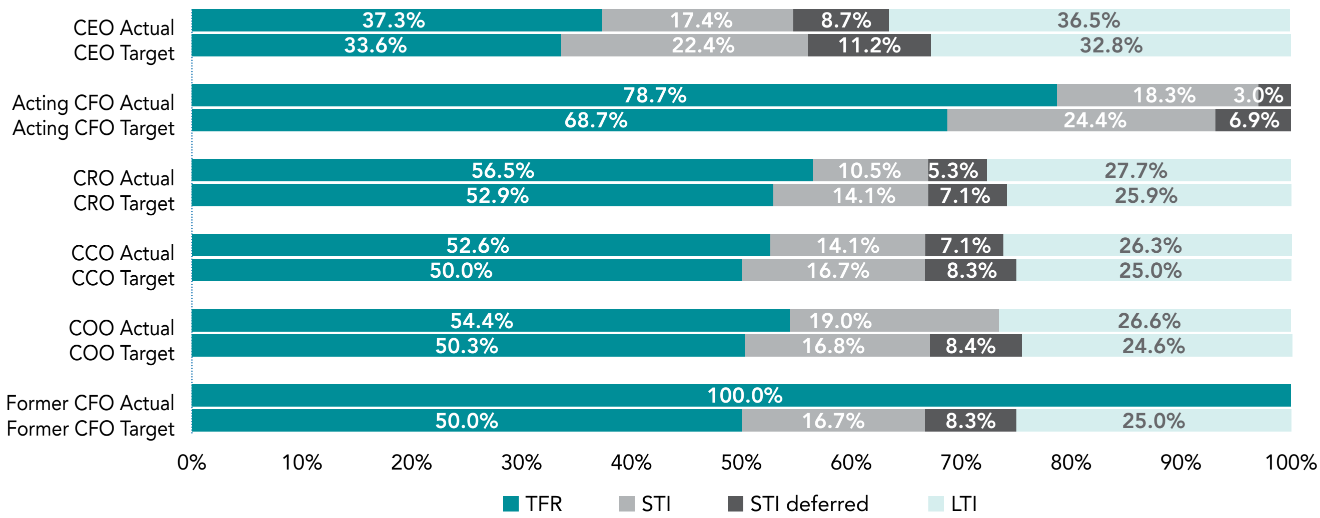
Table 2.4a: Remuneration framework and linkage to company strategy and performance

Business vision	Remuneration strategy
To be the 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 shareholders' and customers' 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 insurance written decreased 7.1% year on year. Strong organic growth in FY18 partially offset the end of an agreement in April 2017 with Genworth's then second largest customer, which represented $2.5 billion of NIW in FY17. 2018 earnings in line with guidance (NEP down 24.1%; Loss Ratio 51.9%) – reflecting 2017 Earnings Curve Review impact and moderating market conditions. GWP increased 24.7% above FY17 and included business written as part of the Company's new product offerings including business written by Genworth's recently established Bermudan entity. In relation to the Bermudan transaction, Genworth has retained $170.2 million of risk and placed the remainder with a consortium of global reinsurers through its Bermudan entity. Net of the premium to the consortium of global reinsurers, Genworth's GWP increased 8.4% in FY18, largely due to this transaction. Statutory net profit after tax (NPAT) in FY18 was $75.7 million (Underlying NPAT $93.9 million [1]). Underlying ROE was 5.2% (ROE was 4.1%).
• Improve productivity by actioning a number of cost and underwriting efficiency initiatives while maintaining strong risk management discipline and customer experience.	• Actioned significant cost saving to achieve operating expenses below target. The loss ratio for FY18 was 51.9% reflecting lower NEP resulting from the 2017 Earnings Curve Review. Excluding the impact of the 2017 Earnings Curve Review, non-reinsurance recoveries on paid claims and the lapsed policy initiative, the adjusted loss ratio was 38.6% in FY18, comparable to FY17 performance. Developed and launched a new automated underwriting decision platform and data-only submission channel
• Improve 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.	• During 4Q18, entered an excess of loss contract with a new customer resulting in commercial arrangements now in place with Australia's five largest banks.
• Improve 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 7% from 2017, with an increase of 8% for agility and 5% for business alignment. Diversity and inclusion measures remain a strength.

Vision and strategy reflected in remuneration programs and actual outcomes	
TFR	**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.	• Average pay increases to executive KMP were 1.2% in the 2019 remuneration review.
STI	**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.	• Performance resulted in 70% STI funding. STI awards to actively employed executive KMP ranged from 30–40% of the maximum STI.
LTI	**LTI**
• Awards reflect company performance against ROE and relative TSR targets.	• The 2016 LTI plan partially vested against relative TSR hurdles but did not meet ROE hurdles across the three year performance period. A 12 month deferral period applies from the end of the relevant performance period (31 December 2018), meaning share rights will not vest to participating executives until 1Q20. For further detail on performance of the LTI plan, refer to section 3.3 – Link between performance and LTI outcomes.

1 Underlying NPAT excludes the after-tax impact of mark-to-market gains/(losses) on the investment portfolio, and the impact of unhedged movements in foreign exchange rates on Genworth's non-AUD exposures. The bulk of these foreign exchange exposures are fully hedged.

Table 2.4b: 2018 target mix of pay (relative weight of each component as a percentage of total remuneration as at 31 December 2018)[1]



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

Total fixed remuneration 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 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 2019 remuneration review, the Board approved increases to TFR for executive KMP.

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 include all executive KMP except herself. The Committee reviews these recommendations and evaluates the CEO's performance, and recommends to the Board any TFR changes and incentive awards for the CEO and other 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.

1 Former CFO resigned in February 2018 and did not receive any STI or LTI allocation in 2018, accordingly his "actual" outcome was 100% TFR. The COO retained entitlement to his 2018 STI following his role being made redundant on 31 January 2019, however the full amount of the incentive was to be made as a cash payment (ie no portion was deferred as employment had ceased at the payment date).

Remuneration report (continued)

Table 2.6a: 2018 STI key characteristics

2018 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%
	Acting CFO, CCO and COO:	50%	100%
	CRO:	40%	80%
Performance objectives	Financial objectives Underlying NPAT for STI (40%) Underlying ROE for STI (25%)	Strategic objectives Execute key strategic priorities (35%)	
Aggregate objective weighting	Financial objectives 65%	Strategic objectives 35%	
Performance period	1 January 2018 – 31 December 2018.		
Performance assessment	In 1Q19, Genworth's performance against financial and strategic objectives 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	1Q19.		
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 2019.		
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 2018. 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 as at the vesting date, in whole share rights.		
Treatment upon vesting	Vested share rights entitle the holder to ordinary shares in the Company for nil consideration. The Company retains discretion to satisfy vested share rights delivered through the STI plan via the issuance of new shares or via an on-market purchase.		
Treatment of terminating executive KMP	Eligibility for an STI award is contingent on active, continuous employment throughout the performance period. In the event of resignation or termination, the executive KMP are ineligible for an STI award and unvested share rights lapse. In the event of termination with 'Good Leaver' status (retirement, redundancy, death or permanent disability or as determined by the Board) – a pro-rated portion of STI may be awarded at the Board and Committee's discretion. Treatment of unvested STI share rights is at the Board and Committee's discretion and may be pro-rated, remain subject to the original vesting schedule, be subject to accelerated vesting or converted to cash.		
Change of control	Board has discretion.		

Table 2.6b: 2019 STI performance objectives and weightings

STI performance objective and weighting	Rationale
Underlying NPAT for STI (25%)	Underlying NPAT for STI (excluding the after-tax impact of unrealised and realised gains and losses on the investment portfolio) is a measure of performance of the in-force portfolio. For 2019, the weighting of this Underlying NPAT measure has been reduced to 25% of the overall scorecard, as a new GWP metric has been introduced (see below).
Capital Management (20%)	The capital management objective reflects execution against the Board approved capital management plan for 2019 which details planned capital returns to shareholders.
Gross Written Premium (GWP – 20%)	GWP target is introduced to incentivise generation of new business within the current performance period, subject to achievement of new business pricing return of >=11.5% within risk appetite.
Strategic Objectives (35%)	2019 strategic objectives include diversification of income from non-traditional LMI products, development of flexible risk based pricing capability, leveraging technology to enhance efficiency/customer experience and culture enhancement and employee engagement.

The 2019 STI Scorecard metrics have been adjusted to improve executive line of sight over delivery of business objectives through:

- A key strategic objective for 2019 is execution against the Board approved capital management plan, and accordingly a capital management target has been introduced.
- ROE is no longer a metric, which removes the prior duplication of ROE as a metric in both the STI and LTI plans.
- Introducing GWP as a metric to reflect generation of quality new business subject to a minimum new business pricing return. GWP is a measure of performance during the performance period, whereas Underlying NPAT is strongly influenced by outcomes of business written in prior performance periods.

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 vested 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 continued 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 2018 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: 2018 LTI key characteristics

LTI 2018 features	Detail
Purpose of LTI plan	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.
LTI % by executive KMP role	**Executive KMP** — **Target % (of TFR)** CEO — 100% Other KMP (excl Acting CFO) — 50%
Performance metrics	Underlying ROE: 25% of the 2018 LTI grant. Calculated as the average of three year Underlying NPAT (excluding after-tax impact of unrealised gains or losses from investments) divided by the three year average equity (excluding after-tax impact of mark-to-market value of investments). 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.
Comparator group for TSR metric	Top 200 ASX financial services companies excluding Real Estate Investment Trusts.
Vesting scales summary	See vesting scales below.
Vesting summary	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.
Performance period	1 January 2018 – 31 December 2020.
Performance assessment	Performance to be assessed in 1Q21. There is no retesting of grants.
Deferral period	12 months from the end of the relevant performance period.
Vesting period/date	Four years in total from the start of relevant performance period (three year performance period with an additional one year deferral).
Award determination	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.
Payment method	Grant of share rights. Vested share rights entitle the holder to ordinary shares in the Company for nil consideration. The Company retains discretion to satisfy vested share rights delivered through the LTI plan via the issuance of new shares or via an on-market purchase.
Vesting conditions	Continuous active employment for four years from grant date. Board and Committee satisfaction that adverse outcomes have not arisen that were not apparent when performance was assessed, and satisfaction that there was not excessive risk taking in achievement of results.
Share rights grant calculation	The number of share rights was 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.

Vesting scales summary:

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

Table 2.7b: 2019 LTI key characteristics

LTI 2019 features	Detail
Performance metrics	Underlying ROE: 25% of the 2019 LTI grant. Calculated as the average of three year Underlying NPAT (excluding after-tax impact of unrealised gains or losses from investments) divided by the three year average equity (excluding after-tax impact of mark-to-market value of investments) measured against a regulatory capital target (based on the midpoint of the Board's targeted range above the Prescribed Capital Amount (PCA)) to provide more direct line of sight for executives. 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. Relative TSR: 75% of the 2019 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 Real Estate Investment Trusts.
Vesting scales summary	See vesting scale below. The relative TSR vesting schedule remains unchanged for 2019.

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

The ROE measure has been adjusted in 2019 to exclude surplus capital above the Board's targeted range for the PCA in order to more directly assess the effectiveness of management in managing the core of the business.

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

Reflecting the impacts of moderating market conditions and the revised earnings curve implemented in 2017, Genworth's financial results decreased year on year, in line with market guidance. However, dividend payouts were maintained and two share buy-back programs to the value of $149.1 million were executed. Genworth's financial performance in 2018 was below target but above threshold for Underlying NPAT and below threshold for Underlying ROE. Genworth made significant progress in redefining its core business model through the Strategic Program of Work:

- GWP was up, primarily due to business written from new product offerings.
- During 4Q18, Genworth entered an excess of loss contract with a new customer resulting in commercial arrangements in place with Australia's five largest banks.

This performance is reflected in a below-target bonus pool and resulting awards to executive KMP (more detail section 3.2).

Table 3.1a: Summary of Genworth's performance (2014–2018)

Financial results	2014 (unaudited [1])	2015	2016	2017	2018
Gross Written Premium (A$m)	$634.2	$507.6	$381.9	$369.0	$460.2
Net Investment Income (A$m)	$226.9	$107.9	$126.0	$103.3	$77.9
Underlying NPAT [2] (A$m)	$279.4	$264.7	$212.2	$171.1	$93.9
Expense Ratio	26.5%	26.2%	25.7%	29.3%	33.6%
Underlying ROE [3]	12.2%	11.6%	10.4%	9.0%	5.2%
Dividends paid	$0.274	$0.503	$0.405	$0.260	$0.21
Share price at start of reporting period	$2.65	$3.64	$2.76	$3.27	$3.00
Share price at end of reporting period	$3.64	$2.76	$3.27	$3.00	$2.19

1 2014 results are presented in full calendar year pro-forma basis to enable meaningful comparison. As a result, the 2014 figures are unaudited.
2 Underlying NPAT excludes the after-tax impact of mark-to-market gains/(losses) on the investment portfolio, and the impact of unhedged movements in foreign exchange rates on Genworth's non-AUD exposures. The bulk of these foreign exchange exposures are fully hedged.
3 Underlying ROE is calculated by dividing Underlying NPAT by the average of the opening and closing Underlying Equity balance for a financial period.

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 view of Genworth's performance against 2018's STI objectives, the Board determined the STI pool funding level to be 70 per cent of STI targets.

Table 3.2a: 2018 STI performance objectives and Board assessment of performance

STI performance objective and weighting	Rationale	Assessment of 2018 performance
Underlying NPAT for STI [1] (40%)	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 STI [1] for 2018 was $82 million compared with a target of $101 million. Drivers of performance included the ongoing impact of the 2017 Earnings Curve Review and moderating market conditions. This outcome translated into a minimum threshold payment for this metric.
Underlying ROE for STI [2] (25%)	ROE is a key measure of the Company's ability to convert equity into profit.	2018 Underlying ROE outcome was below threshold, delivering 4.5% compared with a target of 5.5%. No STI funding was awarded in relation to this metric.
Execute key strategic objectives (35%)	Key strategic priorities may vary year-to-year based on Genworth's priorities. For the 2018 performance period, strategic priorities included improvements in cost and underwriting efficiency measures, product enhancement, renewal of key customer contracts, new business pricing returns, culture enhancement and employee engagement and alignment.	The Board determined overall performance against key strategic objectives to have met stretch performance levels. Further detail on actual performance is provided in table 2.4a.

1 Underlying NPAT for STI excludes the after-tax impact of realised and mark-to-market gains/(losses) on the investment portfolio and the impact of unhedged movements in foreign exchange rates on Genworth's non-AUD exposures. The bulk of these foreign exchange exposures are fully hedged.
2 Underlying ROE for STI is calculated by dividing Underlying NPAT for STI by the average of the opening and closing Underlying Equity balance for a financial period.

3.3 Link between performance and LTI outcomes

2016 LTI award

In January 2016, executive KMP roles were provided with a grant of share rights which vest subject to company performance against Underlying ROE and relative TSR. A 12 month deferral period applies from 31 December 2018, the end of the relevant performance period, meaning share rights will vest in 1Q20.

LTI performance objective and weighting	Detailed calculation	Performance Range	Drivers of performance
Underlying ROE (50%)	Calculated as the average of three year Underlying net profit after tax (excluding unrealised gains or losses from investments) divided by the three year average equity (excluding mark-to-market value of investments)	Threshold performance (50% vesting): 9.5% Maximum performance (100% vesting): 13.0%	The threshold Underlying ROE hurdle for the 2016 award was 9.5% and the actual Underlying ROE result was 8.3%. Decreases in NPAT following the 2017 Earnings Curve Review and moderating market conditions contributed to the ROE outcome. The portion of the award relating to Underlying ROE performance will not vest.
Relative TSR (50%)	Calculated as the relative Total Shareholder Return against a comparator group (the ASX200 excluding resources companies)	Threshold performance (50% vesting): median Maximum performance (100% vesting): upper quartile	The relative TSR outcome for Genworth across the measurement period was 54th percentile (ie above median). Accordingly, 59.8% of the TSR portion of the award will vest, representing 29.9% of the overall grant. A key contributor to Genworth's TSR performance relative to peers was the ongoing capital management program and associated dividend returns to shareholders. Two executives (G. Nicholas and A. Cormack) will qualify for partial vesting in 1Q20, at which point more detail on actual vesting outcomes will be provided.

4. Remuneration outcomes for executive KMP

Table 4a: 2018 STI outcomes

	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)
Executive KMP										
G Nicholas CEO	100%	$890,000	$1,780,000	$415,333	$207,667	95,580	$623,000	70%	35%	65%
W Milner Acting CFO	46%	$146,622	$293,244	$74,827	$12,413	5,713	$82,740	27%	30%	70%
A Cormack CRO	40%	$198,000	$396,000	$92,400	$46,200	21,263	$138,600	28%	35%	65%
S Degetto CCO	50%	$217,500	$435,000	$116,725	$58,363	26,861	$175,088	40%	40%	60%
T Fonseca COO	50%	$230,000	$460,000	$161,000	$0	0	$161,000	35%	35%	65%
Former executive KMP										
L Oxenham CFO	50%	$237,500	$475,000	$0	$0	0	$0	0%	0%	100%

1 Cash STI awarded is inclusive of superannuation.

2 Deferred STI awarded is one-third 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 2018 ($2.1727) and will vest on 1 March 2020, 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 notice either party; Immediate termination 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 notice either party; Immediate termination 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 2018

		Short-term remuneration				
KMP		Cash salary [1]	Other benefits [2]	Non-monetary benefits [3]	Cash STI awarded [4]	Deferred STI [5]
Executive KMP						
G Nicholas	2018	$858,394	$0	$18,481	$415,333	$207,667
CEO	2017	$838,896	$282,059	$20,020	$586,667	$234,653
W Milner	2018	$242,147	$43,933	$1,548	$74,827	$12,413
Acting CFO	2017					
A Cormack	2018	$473,043	$600	$2,877	$92,400	$46,200
CRO	2017	$465,168	$600	$1,701	$86,667	$44,711
T Fonseca	2018	$438,043	$0	$845	$161,000	$0
COO	2017	$430,168	$0	$1,072	$133,333	$60,160
S Degetto	2018	$411,734	$4,657	$13,434	$116,725	$58,363
CCO	2017	$187,590	$24,619	$7,049	$70,000	$9,687
Former executive KMP						
L Oxenham [8]	2018	$171,339	$0	$3,591	$0	$0
CFO	2017	$443,063	$600	$20,020	$79,167	$58,918

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.

3 Non-monetary benefits include insurance premiums, executive health benefits, other non-cash benefits (such as car parking) and related FBT.

4 Cash STI awarded is the actual STI cash payment relating to 2018 performance, inclusive of super, accrued for in 2018. Actual payment made in March 2019.

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 2018 deferred STI plan has been calculated using the 10 day VWAP share price at 31 December 2018 ($2.1727).

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 Monte Carlo method and allocated to each reporting period evenly over the period from grant date to vesting date, which was zero for the 2016, 2017 and 2018 grants, but represents the face value accrued for anticipated vesting under the 2015 LTI grant. This represents a change in methodology from the LTI accrual method used in previous years, which used a Black Scholes valuation. The revised accounting methodology has resulted in a reduced accrual in 2018.

8 Termination benefits provided to Mr Oxenham consisted of accrued annual leave entitlements.

Table 6b: Share option holdings for the reporting period ended 31 December 2018

Executive KMP	Grant detail	Grant date	Issue price	Vesting date	Expiration Date
Name and position					
G Nicholas CEO	GFI Equity '09	19 Aug '09	$9.41	19 Aug '11, '12, '13	13 Feb '18
	GFI Equity '10	10 Feb '10	$16.20	10 Feb '11, '12, '13, '14	10 Feb '20
	GFI Equity '11	9 Feb '11	$12.61	9 Feb '12, '13, '14, '15	9 Feb '21
	GFI Equity '12	14 Feb '12	$8.31	14 Feb '13, '14, '15, '16	14 Feb '22
	GFI Equity '13	15 Feb '13	$8.79	15 Feb '14, '15, '16, '17	15 Feb '23
A Cormack CRO	GFI Equity '09	19 Aug '09	$9.41	19 Aug '10, '11, '12, '13	13 Feb '18
	GFI Equity '10	10 Feb '10	$16.20	10 Feb '11, '12, '13, '14	10 Feb '20
	GFI Equity '11	9 Feb '11	$12.61	9 Feb '12, '13, '14, '15	9 Feb '21
	GFI Equity '12	14 Feb '12	$8.31	14 Feb '13, '14, '15, '16	14 Feb '22
	GFI Equity '13	15 Feb '13	$8.79	15 Feb '14, '15, '16, '17	15 Feb '23
	GFI Equity '14	20 Feb '14	$16.90	20 Feb '15, '16, '17, '18	20 Feb '24

	Long-term/post-emp benefits						
Sub-total	Super benefits	Long service leave [6]	Share-based payments [7]	Termination benefits	Total	% of total that is performance related	% of total that are options
$1,499,875	$20,290	$66,342	$382,302	$0	$1,968,810	32%	0%
$1,962,295	$19,832	$23,282	$536,537	$0	$2,541,947	47%	0%
$374,869	$27,434	$26,082	$9,205	$0	$437,589	20%	0%
$615,120	$20,290	$8,388	$48,060	$0	$691,858	20%	0%
$598,845	$19,832	$12,853	$144,109	$0	$775,640	31%	0%
$599,888	$20,290	$83,447	$151,599	$0	$855,255	19%	0%
$624,732	$19,832	$11,926	$248,270	$0	$904,761	32%	0%
$604,913	$20,290	$17,112	$35,000	$0	$677,314	26%	0%
$298,944	$10,024	$5,735	$40,514	$0	$355,217	34%	0%
$174,930	$10,024	$0	$2,910	$38,969	$226,833	0%	0%
$601,767	$19,832	$15,548	$147,279	$0	$784,426	30%	0%

	Movement during the year						
# Held 31/12/17	Granted	Forfeited	Vested	Exercised	Expired	# Held 31/12/18	Fair value
2,550	0	0	0	0	2,550	0	$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	0	0	0	18,000	$2.40
3,738	0	0	0	0	3,738	0	$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	0	0	0	13,500	$2.40
14,000	0	0	0	0	0	14,000	$3.40

Table 6c: Share right holdings for the reporting period ended 31 December 2018.

Executive KMP	Grant detail	Grant date	Issue price	Vesting date
Name and position				
G Nicholas	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
CEO	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
	Deferred STI '17	1 March '18	$3.05	1 March '19
	LTI '18	1 Jan '18	$2.66	31 Dec '21
W Milner	Equity '16	1 March '16	$2.33	1 Mar '17, '18, '19, '20
Acting CFO	Equity '17	1 March '17	$2.90	1 Mar '18, '19, '20, '21
A Cormack	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
CRO	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
	Deferred STI '17	1 March '18	$3.05	1 March '19
	LTI '18	1 Jan '18	$2.66	31 Dec '21
S Degetto	LTI '17	1 Jan '17	$2.90	31 Dec '20
CCO	Deferred STI '17	1 Jan 2018	$3.05	1 March '19
	LTI '18	1 Jan 2018	$2.66	31 Dec '21
T Fonseca	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
CCO	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
	Deferred STI '17	1 Jan 2018	$3.05	1 March '19
	LTI '18	1 Jan 2018	$2.66	31 Dec '21
Former executive KMP				
L Oxenham	GFI Equity '14	20 Feb '14	$16.90	20 Feb '16, '17, '18
CFO	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

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				
	Held 31/12/17	Granted	Forfeited	Vested	Exercised	# Held 31/12/18
	2,762	0	0	2,762	2,762	0
	62,893	0	0	62,893	62,893	0
	59,943	0	42,560	17,383	17,383	0
	364,119	0	0	0	0	364,119
	293,204	0	0	0	0	293,204
	67,341	3,542	0	70,883	70,883	0
	0	96,070	0	0	0	96,070
	0	326,932	0	0	0	326,932
	6,426	0	0	2,141	2,141	4,285
	8,623	0	0	2,155	2,155	6,468
	900	0	0	900	900	0
	101,739	0	0	0	0	101,739
	83,649	0	0	0	0	83,649
	15,138	796	0	15,934	15,934	0
	0	14,192	0	0	0	14,192
	0	91,127	0	0	0	91,127
	75,025	0	0	0	0	75,025
	0	11,463	0	0	0	11,463
	0	81,733	0	0	0	81,733
	2,300	0	0	2,300	2,300	0
	62,893	0	0	62,893	62,893	0
	56,253	0	39,940	16,313	16,313	0
	86,746	0	0	0	0	86,746
	77,612	0	0	0	0	77,612
	15,660	823	0	16,483	16,483	0
	0	21,834	0	0	0	21,834
	0	84,551	0	0	0	84,551
	987	0	0	987	987	0
	25,157	0	25,157	0	0	0
	6,491	0	6,491	0	0	0
	96,384	0	96,384	0	0	0
	77,612	0	77,612	0	0	0
	27,145	0	27,145	0	0	0

Remuneration report (continued)

7. Non-executive director remuneration

Table 7a: KMP in 2018 – Non-executive directors

Name	Position	Term as KMP
Ian MacDonald	Chairman	Full Period
David Foster	Independent Director – Genworth Financial designee	Full Period
Gai McGrath	Independent Director	Full Period
Gayle Tollifson	Independent Director	Full Period
Stuart Take	Director – Genworth Financial designee	Full Period
Jerome Upton	Director – Genworth Financial designee	Full Period
Christine Patton	Independent Director – Genworth Financial designee	Appointed 1 Sept 2018
Duncan West	Independent Director	Appointed 1 Sept 2018
Former Non-executive directors		
Tony Gill	Independent Director	Retired 31 August 2018
Leon Roday	Director – Genworth Financial designee	Retired 31 August 2018

Non-executive directors are entitled to 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. The aggregate fee cap for 2018 remained unchanged at $1.75 million per annum, inclusive of superannuation obligations. Non-executive directors who are executives of Genworth Financial (Mr Take and Mr Upton) were paid by Genworth Financial in the ordinary course of their duties and were not paid fees by Genworth Australia.

Table 7b: NED fee table

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

1 Mr Roday was paid by Genworth Financial for serving on the Genworth Australia Board. The amount reflected in the statutory tables was the portion of his remuneration attributable to the Genworth Australia Board and Remuneration and 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 nor 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.

Table 7c: Statutory remuneration table – 1 January to 31 December 2018

KMP	Year	Fees	Non-monetary benefits	Superannuation benefits	Total
Non-executive directors					
I MacDonald Chairman	2018	$244,710	$0	$20,290	$265,000
	2017	$242,009	$0	$22,991	$265,000
D Foster [1] Director	2018	$159,817	$0	$15,183	$175,000
	2017	$159,817	$0	$15,183	$175,000
G McGrath [2] Director	2018	$159,817	$0	$15,183	$175,000
	2017	$157,991	$0	$15,009	$173,000
C Patton [3] Director	2018	$42,313	$0	$4,020	$46,333
S Take [4] Director	2018	$0	$0	$0	$0
	2017	$0	$0	$0	$0
G Tollifson [5] Director	2018	$159,817	$0	$15,183	$175,000
	2017	$159,817	$0	$15,183	$175,000
J Upton [6] Director	2018	$0	$0	$0	$0
	2017	$0	$0	$0	$0
D West [7] Director	2018	$54,333	$0	$0	$54,333
Former Non-executive directors					
T Gill [8] Director	2018	$116,667	$0	$0	$116,667
	2017	$175,000	$0	$0	$175,000
L Roday [9] Director	2018	$84,666	$0	$0	$84,666
	2017	$127,000	$0	$0	$127,000

1 Mr Foster is Chairman of the Remuneration and Nominations Committee and Technology Committee and a member of the Capital and Investment Committee.
2 Ms McGrath is Chairman of the Audit Committee and a member of the Risk Committee, Remuneration and Nominations Committee and Technology Committee.
3 Ms Patton is a member of the Audit Committee and Capital and Investment Committee.
4 Mr Take is a member of the Risk Committee and Remuneration and Nominations Committee.
5 Ms Tollifson is Chairman of the Risk Committee and a member of the Audit Committee, Capital and Investment Committee and Remuneration and Nominations Committee.
6 Mr Upton is a member of the Audit Committee, Risk Committee, Capital and Investment Committee and Technology Committee.
7 Mr West is Chairman of the Capital and Investment Committee, and member of the Risk and Technology Committee.
8 Mr Gill was formerly Chairman of the Capital and Investment Committee and a member of the Audit Committee, Risk Committee and Technology Committee.
9 Mr Roday was formerly a member of the Remuneration and Nominations Committee.

8. Other tables

Table 8a: KMP and their related parties direct, indirect and beneficial shareholdings (including movements during the period ending 31 December 2018)

	Balance at 31-Dec-17	Received via vesting/exercising	Other changes	Balance at 31-Dec-18
Executive KMP				
G Nicholas – CEO	116,698	151,159	0	267,857
W Milner – Acting CFO	0	4,296	-4,296	0
A Cormack – CRO	7,792	15,934	0	23,726
S Degetto – CCO	0	0	0	0
T Fonseca – COO	2,121	95,689	-81,497	16,313
Former executive KMP				
L Oxenham – CFO	0	0	0	0
Non-executive directors				
I MacDonald – Chairman	64,565	0	20,435	85,000
D Foster – Director	8,196	0	0	8,196
G McGrath – Director	6,650	0	23,000	29,650
G Tollifson – Director	48,424	0	0	48,424
S Take – Director	8,297	0	0	8,297
J Upton – Director	16,711	0	0	16,711
C Patton – Director	0	0	0	0
D West – Director	0	0	0	0
Former Non-executive directors				
T Gill – Director [1]	118,640	0	-59,320	59,320
L Roday – Director	16,775	0	-16,775	0

1 Displayed balance for Mr Gill as at 31 December 2018 represents balance on the date of his cessation of employment with Genworth.

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

Directors	GMA Group balance held directly or indirectly at 31 Dec 2018	Genworth Financial balance directly or indirectly at 31 Dec 2018	Genworth MI Canada Inc. balance directly or indirectly at 31 Dec 2018
Name and position			
I MacDonald	Shares: 85,000	None	None
G Nicholas	Shares: 267,857 Share rights: 1,080,325	Shares: 18,571 Options: 15,000 Stock appreciation rights: 56,400	None
D Foster	Shares: 8,196	None	None
G McGrath	Shares: 29,650	None	None
G Tollifson	Shares: 48,424	None	None
S Take	Shares: 8,297	Shares: 58,721 Restricted stock units: 4,500 Options: 26,400 Stock appreciation rights: 53,200	None
J Upton	Shares: 16,711	Shares: 54,607 Restricted stock units: 7,325 Options: 18,000 Stock appreciation rights: 88,000	Shares: 906
C Patton	None	None	None
D West	None	None	None
Former directors		None	None
T Gill	Shares: 59,320	None	None
L Roday	None	Stock appreciation rights: 501,333	Shares: 3,020 Deferred share units: 1,037

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 22 February 2019

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 2018 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 22 February 2019

Financial statements

Contents

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Gross written premium	3.1	460,166	368,963
Movement in unearned premium		(103,823)	69,246
Outward reinsurance premium expense		(75,059)	(67,740)
Net earned premium		281,284	370,469
Net claims incurred	4.1	(145,899)	(141,774)
Acquisition costs		(40,640)	(49,919)
Other underwriting expenses	3.3	(55,268)	(58,462)
Other underwriting revenue		1,497	–
Underwriting result		40,974	120,314
Investment income on assets backing insurance liabilities	3.2	38,711	28,001
Insurance profit		79,685	148,315
Investment income on equity holders' funds	3.2	42,967	78,890
Investment expense		(3,760)	(3,553)
Financing costs		(12,128)	(11,490)
Profit before income tax		106,764	212,162
Income tax expense	3.5(a)	(31,096)	(62,988)
Profit for the year		75,668	149,174
Total comprehensive income for the year		75,668	149,174
Earnings per share			
Basic earnings per share (cents per share)	3.7	16.5	29.7
Diluted earnings per share (cents per share)	3.7	16.4	29.7

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 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash	6.6	141,450	43,025
Accrued investment income		22,129	17,777
Investments	2.2(d)	3,082,973	3,348,547
Trade and other receivables	6.4	80,559	12,521
Prepayments		1,810	2,450
Deferred reinsurance expense	4.2	43,333	145,425
Non-reinsurance recoveries	4.5	21,215	23,552
Deferred acquisition costs	4.3	166,845	151,791
Plant and equipment		6,566	938
Deferred tax assets	3.5(b)	7,875	9,435
Intangibles	6.1	6,195	1,301
Goodwill	6.2	9,123	9,123
Total assets		3,590,073	3,765,885
Liabilities			
Trade and other payables	6.5	51,856	31,653
Reinsurance payable		42,225	159,979
Outstanding claims	4.4	339,063	339,679
Unearned premium	4.6	1,214,206	1,108,554
Employee benefits provision	6.3	7,257	6,796
Interest bearing liabilities	5.2	198,166	197,035
Total liabilities		1,852,773	1,843,696
Net assets		1,737,300	1,922,189
Equity			
Share capital	5.3(a)	1,154,084	1,303,151
Share based payment reserve	5.3(b)	1,659	2,528
Other reserves	5.5	(476,559)	(476,559)
Retained earnings		1,058,116	1,093,069
Total equity		1,737,300	1,922,189

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 2018

	Share capital $'000	Other reserves $'000	Retained earnings $'000	Share based payment reserve $'000	Total $'000
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
Balance at 1 January 2018	1,303,151	(476,559)	1,093,069	2,528	1,922,189
Profit after taxation	–	–	75,668	–	75,668
Dividends declared and paid	–	–	(110,621)	–	(110,621)
Share based payment expense recognised	–	–	–	668	668
Share based payment settled	–	–	–	(1,537)	(1,537)
Buy-back of shares, net of transaction costs	(149,067)	–	–	–	(149,067)
Balance at 31 December 2018	1,154,084	(476,559)	1,058,116	1,659	1,737,300

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 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Premiums received		447,622	405,839
Interest and other income		82,311	109,200
Claims paid		(147,642)	(150,797)
Interest paid		(10,997)	(10,696)
Cash payments in the course of operations		(241,057)	(225,125)
Income tax paid		(28,782)	(69,731)
Net cash provided by operating activities	3.4	101,455	58,690
Cash flows from investing activities			
Payment for plant and equipment and intangibles		(11,642)	(1,306)
Payments for investments		(3,848,337)	(1,276,963)
Proceeds from sale of investments		4,115,849	1,398,475
Net cash provided by investing activities		255,870	120,206
Cash flows from financing activities			
Dividends paid		(110,621)	(142,622)
Payments for the on-market buy-back of shares		(149,067)	(50,883)
Net cash used in financing activities		(259,688)	(193,505)
Net increase(decrease) in cash held		97,637	(14,609)
Effects of exchange rate changes on balances of cash held in foreign currencies		788	–
Cash and cash equivalents at the beginning of the financial year		43,025	57,634
Cash and cash equivalents at the end of the financial year	6.6	141,450	43,025

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 2018 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 the ASX. The Group operates in one business and operating 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 22 February 2019.

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 (AASB) and the ASX Listing Rules. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS. The financial report also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB has issued a new standard (IFRS 17 *Insurance Contracts* – adopted as AASB 17 *Insurance Contracts* in an Australian context) that does include such criteria, with the current effective date of 1 January 2021. However since issuing the standard, the IASB has agreed to propose a one year delay to the effective date to 1 January 2022, the agreement of which is subject to public consultation. At the time of implementation of AASB 17, AASB 9 *Financial Instruments* will be implemented as well given the Group meets the requirements for deferral under AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*. Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the financial position and performance of the 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 and derivatives 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 2018. The adoption of these standards did not have a material financial impact:

	New standards, amendments and interpretations	Operative date
AASB 15	Revenue from Contracts with Customers	1 January 2018
AASB 2015-8	Amendments to Australian Accounting Standards – Effective date of AASB 15	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 Interpretation 22	Foreign currency transactions and advance consideration	1 January 2018

AASB 15 *Revenue from Contracts with Customers* 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, financial instruments and leases. Therefore the Group's revenue is not materially impacted by this change.

New accounting standards and amendments issued but not yet effective

There are a number of new standards, amendments and interpretations noted below which are effective for annual periods beginning on or after 1 January 2019, 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 and these are not expected to have a material impact on the Group's financial statements, except where noted below.

	New standards, amendments and interpretations	Operative date
AASB 9	Financial Instruments	1 January 2018
AASB 16	Leases	1 January 2019
AASB 17	Insurance Contracts	1 January 2021
AASB 2015-10	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2022
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle	1 January 2019
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	1 January 2019
AASB Interpretation 23	Uncertainty over income tax treatments, and relevant amending standards	1 January 2019
Conceptual Framework	Amendments to standards to apply the new definition and recognition criteria in the Conceptual Framework for Financial Reporting	1 January 2020

AASB 9 *Financial Instruments* (AASB 9) applies to annual reporting periods beginning on or after 1 January 2018. The Group is allowed to apply the temporary exemption from AASB 9 as it has not previously adopted any version of AASB 9 and its activities are predominantly connected with insurance, as prescribed by AASB 4 *Insurance Contracts* (i.e. at 31 December 2015, the carrying amount of the Group's insurance liabilities was significant compared to the total carrying amount of all its liabilities and the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90 per cent). The Group, having met the relevant criteria, has deferred the adoption of AASB 9. The Group's investments are currently designated at fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date, reflecting the business model applied by the Group to manage and evaluate its investment portfolio. Under the Group's business model, the adoption of AASB 9 could result in a portion of the investment portfolio being revalued through other comprehensive income. The Group is currently evaluating the elections to be made to its portfolios of investments, in conjunction with the implementation of AASB 17 *Insurance Contracts* (AASB 17).

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the change in the fair value of the Group's financial assets as at 31 December 2018, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (Non-SPPI):

	SPPI		Non-SPPI	
Financial asset	Fair value $'000	Change in fair value $'000	Fair value $'000	Change in fair value $'000
Short-term investments	257,818	(12)	–	–
Bonds	2,700,539	10,519	1,833	(12)
Equities	–	–	122,783	(25,839)
	2,958,357	10,507	124,616	(25,851)

Trade and other receivables are financial assets which are in the scope of IFRS 9 and are SPPI assets. These assets amounted to $80,559,000 at 31 December 2018. These assets are measured at their present value less any impairment loss for any doubtful accounts (no doubtful account at 31 December 2018) which approximates fair value.

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets at 31 December 2018:

Credit rating	Credit Risk	Fair value $'000	Fair value %
Bonds and short-term investments			
AAA	Low	1,239,468	41.9%
AA	Low	827,149	28.0%
A	Low	475,475	16.1%
BBB	Low	405,105	13.7%
BB	Other	11,160	0.4%
		2,958,357	100.0%

Trade and other receivables at 31 December 2018 have the following credit rating: AAA with low credit rating ($9,407,000), AA with low credit risk ($66,597,000), BBB with low credit risk ($663,000) and not rated with other credit risk ($3,892,000).

Notes to the financial statements (continued)

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 (companies are allowed to apply a practical expedient for leases of low value assets and leases with a term of 12 months or less). On transition to AASB 16, the Group is also required to re-assess on-going sub-leases that are currently classified as operating leases to determine whether these contracts should be classified as operating or finance leases under AASB 16. 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, the Group would recognise additional assets amounting to $17.3m and an additional lease liability of approximately $17.2m, the difference of $0.1m to be credited to retained earnings at 1 January 2019. This is based on lease commitments and discount rates as at 31 December 2018.

AASB 17, a new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board on 19 July 2017 subsequent to being issued by the International Accounting Standards Board on 18 May 2017. The IASB has agreed to propose a one year delay to the effective date from the current effective date of 1 January 2021 to 1 January 2022, the agreement of which is subject to public consultation. Subject to approval the first applicable reporting period for the Group will be for the year ending 31 December 2022, with the comparative period for the year ending 31 December 2021 and the balance sheet at the start of the comparative period (i.e. 1 January 2021) also presented under AASB 17. The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach permitted in certain circumstances. The Group is currently undertaking a detailed impact assessment of the new standard. There are changes in the presentation of the financial statements and disclosures anticipated. Due to the complexity of the requirements within the standard the final impact of certain requirements may not be determined until global interpretations and regulatory responses to the new standard are developed.

(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.

(e) Critical accounting estimates and judgements

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

The accounting policies have been applied consistently by the Group.

(f) Principles of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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.

Change in presentation of Statement of comprehensive income

The Statement of comprehensive income has been enhanced to present investment expenses separately from investment income. This change resulted in an increase of the investment income on equity holders' fund of $3,553,000 and the presentation of an investment expense in the Statement of comprehensive income of $3,553,000.

Change in the presentation of the Statement of cash flows

The Statement of cash flows has been represented by grossing up premiums received and claims paid as opposed to net of GST to cash payments in the course of operations. The change resulted in increase in premiums received of $36,876,000, claims paid $4,018,000 and cash payments in the course of operations of $32,858,000.

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 and 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 Committees 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 and 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 lenders representing 10 per cent or more of the Group's gross written premium (GWP) are included in the table below:

Lender customer	FY18 GWP	FY17 GWP
Largest customer	60.1%	52.5%
Second largest customer	14.3%	14.9%

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 foreign exchange rates. The Group is exposed to currency risk on its investments in debt securities, cash receivables and payables denominated in a currency other than Australian dollars and the net investment in foreign branch operations. The currencies giving rise to the risk are United States dollars, Euros and New Zealand (NZ) dollars.

The Group used forward foreign exchange contracts to mitigate currency risk arising from fixed interest securities denominated in United States dollars and Euros. The risk management processes required both Board and regulatory approvals. Transactions are subject to close senior management scrutiny in addition to the regular risk management and monitoring processes. Derivatives are used only for approved purposes and are subject to delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use and compliance with policy, limits and other requirements are closely monitored.

The potential impact on the Group's profit and loss and equity resulting from a 10 per cent depreciation/appreciation of the Australian dollar (AUD) compared with selected currencies, net of related derivatives at the reporting date, assuming all other variables remain constant, is shown below.

	2018		2017	
	+10% $'000	-10% $'000	+10% $'000	-10% $'000
New Zealand dollar	807	(986)	807	(986)
United States dollar	812	(826)	–	–
Euros	97	(181)	–	–

(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 debt securities and cash and to actively manage the duration.

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

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

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

	2018		2017	
	+1% $'000	-1% $'000	+1% $'000	-1% $'000
Interest bearing assets	**(60,325)**	**64,395**	(35,626)	39,596

(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.

	2018		2017	
	+10% $'000	-10% $'000	+10% $'000	-10% $'000
Investments – listed equity securities	**11,880**	**(11,880)**	23,740	(23,740)

(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 83 per cent (2017: 86 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.

	2018 $'000	2017 $'000
Cash at bank and short-term bank deposits		
AAA	50,467	67,609
AA	171,588	818,233
A	86,284	107,652
BBB	87,929	98,329
BB	3,000	3,000
	399,268	1,094,823
Investments (excluding term deposits)		
AAA	1,189,001	864,997
AA	714,724	641,091
A	471,478	411,579
BBB	318,340	141,639
BB	8,829	–
	2,702,372	2,059,306
Accrued interest receivable		
AAA	8,517	9,016
AA	6,865	4,330
A	3,772	3,881
BBB	2,900	516
BB	75	34
	22,129	17,777
Trade and other receivables		
Premium receivables		
AA	54,378	–
A	663	–
Other receivables		
AAA	9,407	10,153
AA	12,220	–
Not rated	3,891	2,368
	80,559	12,521

(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 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.

2018 Financial liabilities	Less than 1 year $'000	1–5 years $'000	Total $'000
Trade and other payables	47,554	4,302	51,856
Reinsurance payable	22,215	20,010	42,225
	69,769	24,312	94,081

2017 Financial liabilities	Less than 1 year $'000	1–5 years $'000	Total $'000
Trade and other payables	31,653	–	31,653
Reinsurance payable	84,979	75,000	159,979
	116,632	75,000	191,632

Notes to the financial statements (continued)

(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 gains and losses recognised in the statement of comprehensive income.

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

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn.
- Fixed interest securities are initially recognised at fair value, determined as the 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

The Group used forward foreign exchange contracts to hedge currency exposures arising from interest bearing securities denominated in currencies other than Australian dollars, with both the foreign exchange and derivatives impact reported through profit or loss. Derivatives are used solely to manage risk exposure and are not used for trading or speculation.

Derivatives are initially recognised at trade date at fair value; 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. The investment related derivatives are presented together with the underlying investments or as payables when the fair value is negative. Forward foreign exchange contracts are determined using observable inputs (level 2 in the fair value hierarchy).

Investments

	2018 $'000	2017 $'000
Fixed interest rate		
Short-term deposits	162,870	825,142
Government and semi-government bonds	1,229,480	709,009
Corporate bonds	656,505	678,659
	2,048,855	2,212,810
Floating interest rate		
Short-term deposits	94,948	226,656
Government and semi-government bonds	–	42,241
Corporate bonds	816,387	629,397
	911,335	898,294
Equity securities		
Listed	118,783	237,443
Unlisted	4,000	–
	122,783	237,443
Total investments	3,082,973	3,348,547
Comprising:		
Current	705,876	1,394,597
Non-current	2,254,314	1,716,507
Equity	122,783	237,443
	3,082,973	3,348,547

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. This category includes the unlisted equity investment. The fair value has been supported based on a discounted cash flow analysis performed utilising the latest available cash flows from the entity.

31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial instruments				
Government and semi-government bonds	–	1,229,480	–	1,229,480
Corporate bonds	–	1,472,892	–	1,472,892
Short-term deposits	257,818	–	–	257,818
Listed equity investments	118,783	–	–	118,783
Unlisted equity investments	–	–	4,000	4,000
Total	376,601	2,702,372	4,000	3,082,973

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
Listed equity investments	237,443	–	–	237,443
Unlisted equity investments	–	–	–	–
Total	1,289,241	2,059,306	–	3,348,547

The following table provides a reconciliation between the opening balances and the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

	Balance at 1 January 2018 $'000	Purchases $'000	Disposals $'000	Movement in fair value $'000	Balance at 31 December 2018 $'000
Financial instruments					
Unlisted equity investments	–	4,000	–	–	4,000
Total	–	4,000	–	–	4,000

	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)	–

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 approximates 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

Reporting date positions

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

	2018			2017		
	Exposure $'000	Fair value asset $'000	Fair value liability $'000	Exposure $'000	Fair value asset $'000	Fair value liability $'000
Forward foreign exchange contracts	536,419	–	9,418	–	–	–
	536,419	–	9,418	–	–	–

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

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.

	2018 $'000	2017 $'000
Direct premium	457,367	366,190
Inward reinsurance premium	2,799	2,773
	460,166	368,963

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.

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. Dividend revenue is recognised net of franking credits, and gross of withholding tax.

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

	2018 $'000	2017 $'000
Interest revenue	82,269	89,601
Dividend revenue	8,153	12,182
Unrealised losses including derivatives	(23,973)	(31,291)
Realised gains	17,281	36,399
Other investment (losses)/gains	(2,052)	–
Total investment income	81,678	106,891
Represented by		
Investment income on assets backing insurance liabilities	38,711	28,001
Investment income on equity holders' funds	42,967	78,890
	81,678	106,891

3.3 Other underwriting expenses

	2018 $'000	2017 $'000
Depreciation and amortisation expense	1,027	756
Employee expenses:		
– Salaries and wages	25,871	24,436
– Superannuation contributions	1,867	1,731
– Employee benefits	270	207
Occupancy expenses	2,626	2,516
Marketing expenses	473	471
Administrative expenses	23,134	28,345
	55,268	58,462

Notes to the financial statements (continued)

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.

	2018 $'000	2017 $'000
Profit after income tax	75,668	149,174
Less items classified as investing/financing activities:		
– (Gain)/loss on sale of investments	(17,281)	(36,399)
– Unrealised (gain)/loss on investments including derivatives	23,973	31,291
Add non-cash items:		
– Share based payments	(870)	(861)
– Loss on disposal of plant and equipment	93	789
– Depreciation and amortisation	1,027	756
Net cash provided by operating activities before change in assets and liabilities	82,610	144,750
Change in assets and liabilities during the financial year:		
Increase/(decrease) in receivables	32,679	(52,318)
Decrease in outstanding claims liability	(615)	(15,868)
(Decrease)/increase in payables and borrowings	(105,838)	60,255
Increase in deferred acquisition costs	(15,054)	(9,794)
Increase in provision for employee entitlements	461	383
Increase/(decrease) in unearned premium	105,652	(69,246)
Decrease in deferred tax asset balances	1,560	528
Net cash provided by operating activities	101,455	58,690

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 2018 $'000	31 December 2017 $'000
Current tax	28,730	62,268
Deferred tax	1,442	528
Under provision in prior year		
Current tax	806	192
Deferred tax	118	–
	31,096	62,988

Notes to the financial statements (continued)

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

	31 December 2018 $'000	31 December 2017 $'000
Prima facie income tax expense calculated at 30% on profit	32,029	63,649
Increase in income tax expense due to:		
Foreign tax rate differential	–	(4)
(Over)/under provision in prior year	924	189
Other non-taxable items	(44)	(849)
Non-deductible items	92	–
Franking tax credit	(1,905)	–
Income tax expense on the profit	31,096	62,988

(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

	2018 $'000	2017 $'000
Deferred tax asset balance comprises temporary differences attributable to:		
Employee benefits	3,580	3,549
Share based payments and accrued expenses	475	235
Provision for indirect claims handling costs	3,820	5,651
	7,875	9,435
Net deferred tax		
Balance at 1 January	9,435	9,963
(Debited)/credited to the statement of comprehensive income	(1,442)	(528)
Under/(over) provision of prior year tax	(118)	–
Closing balance at 31 December	7,875	9,435

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 Section 254T of the *Corporations Act 2001* and the Company's constitution.
- 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.

	2018		2017	
	Cents per share	$m	Cents per share	$m
2018 interim dividend paid on 30 August 2018 (2017: interim dividend) fully franked at 30%	8.0	35.8 [2]	12.0	61.1
2018 special dividend paid on 30 August 2018 (2017: special dividend) fully franked at 30%	4.0	17.9 [2]	2.0	10.2
2017 final dividend paid on 16 March 2018 (2016: final dividend) fully franked at 30%	12.0	56.9 [1]	14.0	71.3

1 Of the total 2017 final dividend declared of $59.1 million, right and entitlement of $2.2 million to dividends was removed due to the share buy-back during the year.

2 Of the total 2018 interim dividend declared of $55.2 million, right and entitlement of $1.5 million to dividends was removed due to the share buy-back during the year.

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.

Notes to the financial statements (continued)

(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
2018 final dividend	9.0	39.4	18 March 2019	30%	100%

(c) Dividend franking account

The balance of the franking account arises from:

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

	31 December 2018 $'000	31 December 2017 $'000
Franking account balance – tax paid basis	1,081	17,049

The franking account balance on a tax paid basis as at 31 December 2018 was a surplus of $1,081,000 (2017: $17,049,000 surplus).

After taking into consideration the impact of franking credits and debits relating to the tax payable for the 2018 year, the franking account balance would have a deficit of $8,325,000 (2017: $6,897,000 surplus). After taking into consideration the impact of the final dividend recommended by the Board since year end, but not recognised as a liability as at year end, the franking account will have a deficit of $25,198,000 (2017: $18,424,000 deficit).

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

3.7 Earnings per share

Accounting policies

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

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

Basic and diluted earnings per share have been calculated using the weighted average and dilutive number of shares outstanding during the year of 459,840,000 (2017: 502,276,000). The difference between basic and diluted earnings per share is caused by the granting of potentially dilutive securities such as share rights, options and RSUs.

	31 December 2018	31 December 2017
Basic earnings per share (cents per share)	16.5	29.7
Diluted earnings per share (cents per share)	16.4	29.7

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

	31 December 2018 $'000	31 December 2017 $'000
Net profit after tax	75,668	149,174
Net profit after tax used in calculating basic and diluted earnings per share	75,668	149,174

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

	31 December 2018 '000	31 December 2017 '000
Weighted average number of ordinary shares on issue	459,840	502,276
Weighted average number of shares used in the calculation of basic earnings per share	459,840	502,276
Weighted average number of dilutive potential ordinary shares		
Bonus element of shares	577	893
Weighted average number of shares used in the calculation of diluted earnings per share	460,417	503,169

Section 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 2018 $'000	31 December 2017 $'000
Gross claims incurred	156,586	155,115
Reinsurance and other recoveries revenue	(9,315)	(4,271)
Net borrower recoveries recognised	(1,372)	(9,070)
Net claims incurred	145,899	141,774

Net claims incurred increased $4.1 million to $145.9 million (2017: $141.8 million) primarily driven by a favourable movement in non-reinsurance recoveries on paid claims in FY17 which did not occur in the current year.

(b) Claims development

	2018			2017		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Direct	210,894	(57,402)	153,492	259,418	(110,052)	149,366
Inwards reinsurance	7,361	(4,267)	3,094	14,661	(8,912)	5,749
Gross claims incurred – undiscounted	218,255	(61,669)	156,586	274,079	(118,964)	155,115
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted	(2,753)	(6,562)	(9,315)	(507)	(3,764)	(4,271)
Net borrower recoveries recognised	-	(1,372)	(1,372)	(1,076)	(7,994)	(9,070)
Net claims incurred	215,502	(69,603)	145,899	272,496	(130,722)	141,774

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 2018 $'000	31 December 2017 $'000
Balance as at 1 January	145,425	80,163
Deferral of reinsurance premium on current year contracts	43,333	206,011
Expensing/reversing of reinsurance premium previously deferred	(145,425)	(140,749)
Balance as at 31 December	43,333	145,425
Comprising:		
Current	12,076	70,425
Non-current	31,257	75,000
	43,333	145,425

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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 2018 $'000	31 December 2017 $'000
Opening balance at 1 January	151,791	141,997
Acquisition costs incurred in year	62,292	65,446
Amortisation charge	(47,238)	(55,652)
Balance as at 31 December	166,845	151,791
Comprising:		
Current	35,375	39,292
Non-current	131,470	112,499
	166,845	151,791

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.

	2018 $'000	2017 $'000
Central estimate	299,919	300,375
Risk margin	39,144	39,304
Gross outstanding claims	339,063	339,679

(a) Reconciliation of changes in outstanding claims

	2018 $'000	2017 $'000
Opening balance as at 1 January	339,679	355,546
Current period net claims incurred	145,899	141,774
Movement in non-reinsurance and borrower recoveries	(2,337)	(10,862)
Claims paid	(144,178)	(146,779)
Balance as at 31 December	339,063	339,679
Comprising:		
Current	254,271	254,730
Non-current	84,792	84,949
	339,063	339,679

(b) Claims development

Underwriting years	Prior years $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	Total $'000
At end of year of underwriting		4,393	701	992	1,079	1,021	777	1,424	860	1,162	1,019	
One year later:		19,629	7,004	6,668	7,805	6,825	12,917	6,803	8,620	6,716		
Two years later		36,755	15,005	10,997	11,246	20,870	20,319	16,711	8,680			
Three years later		47,621	9,744	9,989	24,535	29,722	21,130	13,560				
Four years later		24,386	8,107	15,925	43,917	28,494	20,825					
Five years later		16,589	23,971	23,182	34,634	30,254						
Six years later		40,761	11,717	14,669	21,273							
Seven years later		12,537	10,923	14,053								
Eight years later		18,916	8,854									
Nine years later		4,474										
Net incurred to date		226,061	96,026	96,475	144,489	117,186	75,968	38,498	18,160	7,878	1,019	
Net paid to date		198,333	77,217	73,545	106,146	65,853	32,184	8,812	2,232	233	20	
Net outstanding claims provision	60,663	27,728	18,809	22,930	38,343	51,333	43,784	29,686	15,928	7,645	999	317,848
Non-reinsurance recoveries												21,215
Gross outstanding claims												339,063

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.

	2018 $'000	2017 $'000
Balance as at 1 January	23,552	34,414
Movement of non-reinsurance recoveries	463	(962)
Net borrower recoveries receivable recognised	(2,800)	(9,900)
Balance as at 31 December	21,215	23,552

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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 2018 $'000	31 December 2017 $'000
Balance as at 1 January	1,108,554	1,177,801
Premiums incepted during the year	460,166	368,963
Premiums earned during the year	(354,514)	(438,210)
Balance as at 31 December	1,214,206	1,108,554
Comprising:		
Current	276,148	240,352
Non-current	938,058	868,202
	1,214,206	1,108,554

4.7 Liability adequacy test

Accounting policies

The liability adequacy test (LAT) is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. 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 (2017: 70th percentile), includes a risk margin of 14 per cent (2017: 14 per cent). The 70 per cent PoA represented by the 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/deferred acquisition costs/unearned premium (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 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 deferred acquisition costs, 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 by lenders as being 90 days delinquent at the valuation date.
- IBNR, being loans delinquent between 30 and 90 days, or not otherwise advised to the Group by lenders.

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.
- 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 to determine the underlying assumptions. The Appointed Actuary examines all past underwriting years, including the mix of business by loan to value (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 29 per cent (2017: 34 per cent).
- Average severity factor is 28 per cent (2017: 25 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.
- Increased uncertainty due to future legislative changes.

A risk margin for outstanding claims of 14 per cent (2017: 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 (2017: 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 claims 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 claims liabilities.

Impact on outstanding claims liabilities to changes in key variables

	Net Outstanding Claims Liability		Net Premium Liability	
Sensitivity Change	**$M**	**%**	**$M**	**%**
Base	279		767	
Ultimate Loss Ratio				
Upside Economics	(2)	(1)%	(24)	(3)%
Downside Economics – 5% HPD, increase in mortgage rates	10	4%	65	9%
Downside Economics – 10% HPD, increase in mortgage rates	20	7%	119	16%
Downside Economics – 15% HPD (NSW, QLD, VIC)	16	6%	130	17%
Arrears Frequency Model				
+5% HPA estimate	(5)	(2)%	–	–
-5% HPA estimate	13	5%	–	–
-10% HPA estimate	22	8%	–	–
5% Parameter Estimate Confidence Interval	(4)	(2)%	–	–
95% Parameter Estimate Confidence Interval	7	3%	–	–
Discount Rate				
+1.0%	–	–	(32)	(4)%
-1.0%	–	–	35	5%

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.
- 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 curve is revised when experience indicates such differences are ongoing.

The 2017 annual review process recommended a modification to the earnings pattern. This was applied to the recognition of revenue in the income statement from 1 October 2017, and in subsequent reporting periods. The changes applied to the premium earning pattern as part of the 2017 review process negatively impacted Net Earned Premium (NEP) in 2018 by $108.9 million (2017: $37.3 million). The Group completed the annual review of its premium earnings pattern in the fourth quarter of 2018. The review resulted in no changes to the earnings curve pattern adopted in the fourth quarter of 2017.

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 2018:

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

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

	31 December 2018 $'000	31 December 2017 $'000
Tier 1 capital		
Paid-up ordinary shares	**1,154,084**	1,303,151
Other reserves	**(474,900)**	(474,031)
Retained earnings	**1,058,116**	1,093,068
Less: Deductions	**(23,193)**	(19,858)
Net surplus/(deficit) relating to insurance liabilities	**34,029**	(9,967)
Net Tier 1 capital	**1,748,136**	1,892,363
Tier 2 capital	**200,000**	200,000
Total capital base	**1,948,136**	2,092,363
Insurance risk charge	**245,457**	221,731
Insurance concentration risk charge	**660,748**	761,423
Asset risk charge	**124,767**	137,642
Operational risk charge	**31,698**	27,996
Aggregation benefit	**(56,379)**	(62,089)
Total PCA	**1,006,291**	1,086,703
PCA coverage	**1.94x**	1.93x

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 but 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 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 event, and has at all times during the current and prior financial year complied with the externally imposed capital requirements to which it is subject.

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

(b) Ratings capital

The 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 25 May 2018, Standard & Poor's Ratings Services reaffirmed Genworth Financial Mortgage Insurance Pty Limited's (GFMI) financial strength rating at 'A+' and outlook as 'negative'.

Fitch Ratings

On 11 October 2018, 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.

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 capitalised transaction costs and premium paid on the early redemption of borrowings.

		31 December 2018 $'000	31 December 2017 $'000
Subordinated notes			
$200 million subordinated notes	(A)	200,000	200,000
Less: capitalised transaction costs		(1,834)	(2,965)
		198,166	197,035

(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.
- 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

	2018 Number of shares '000	2018 $'000	2017 Number of shares '000	2017 $'000
Issued fully paid capital				
Balance as at 1 January	492,351	1,303,151	509,365	1,354,034
Buy-back shares, net of transaction costs	(54,886)	(149,067)	(17,014)	(50,883)
Balance as at 31 December	437,465	1,154,084	492,351	1,303,151

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

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

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. In FY17 the Company acquired 17,013,668 shares for a total consideration of $51 million.

On 9 February 2018, the Company recommenced the on-market share buy-back program announced on 2 August 2017 and completed the program on 21 February 2018 with 18,537,698 shares acquired for a total consideration of $49 million.

On 2 May 2018, the Company announced its intention to commence on-market share buy-back with effect from 17 May 2018 and completed the buy-back program on 28 August 2018 with 36,348,852 shares acquired for a total consideration of $100 million.

The shares acquired by the Company as part of on-market share buy-back programs have been cancelled and removed from the share register.

(b) Share-based payment reserve

	31 December 2018 $'000	31 December 2017 $'000
Balance as at 1 January	2,528	3,389
Share-based payment expense	668	3,284
Share-based payment settled	(1,537)	(4,145)
Balance as at 31 December	1,659	2,528

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

5.4 Capital commitments and contingencies

Accounting policies

The Group leases property and equipment under operating leases where the lessor retains substantially all the risks and benefits of ownership of the leased items, expiring from one to five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are usually renegotiated. 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 2018 $'000	31 December 2017 $'000
The estimated future amounts of operating lease commitments not provided for in the financial statements are payable:		
Within one year	3,397	3,901
One year or later and no later than five years	11,533	16,111
More than five years	–	2,305
	14,930	22,317

Contingencies

There were no contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

Recognition and measurement

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

5.5 Other reserves

	31 December 2018 $'000	31 December 2017 $'000
Other reserves	(476,559)	(476,559)

The balance represents reserves recognised from the reorganisation of the intragroup debt and equity arrangements when 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 arose; therefore any difference in these transactions was 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. (2017: Nil)

Reconciliations

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

	31 December 2018 $'000	31 December 2017 $'000
Cost		
Balance as at 1 January	25,263	26,248
Additions	5,355	493
Disposals	–	(1,478)
Balance as at 31 December	30,618	25,263

	31 December 2018 $'000	31 December 2017 $'000
Accumulated amortisation and impairment losses		
Balance as at 1 January	(23,962)	(24,242)
Amortisation	(461)	(409)
Disposals	–	689
Balance as at 31 December	(24,423)	(23,962)
Total net intangibles	6,195	1,301

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

For the purpose of impairment testing, goodwill is allocated to cash generating units (CGU). As at 31 December 2018, GMA comprises of a single CGU (Genworth Mortgage Insurance Australia), which reflects the level at which goodwill is monitored for impairment by management.

The impairment test involves the use of accounting estimates and assumptions. The recoverable amount of the CGU is determined on the basis of value in use calculation which is performed on a pre-tax basis. The present value of future cash flow projections is based on the most recent management approved budgets. The carrying value of identifiable intangible assets is deducted from the value generated in the cash flow projections to arrive at a recoverable value of the CGU, which is then compared with the carrying value of CGU.

	31 December 2018 $'000	31 December 2017 $'000
Goodwill – at deemed cost	9,123	9,123

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

- Cash flow forecast is based on the latest five-year business plan approved by management. This business plan is based on a combination of historical performance and management's expectations of future performance based on prevailing and anticipated market factors.
- Terminal value is calculated using a perpetuity growth formula applied to the cash flows projected for the last year of the forecast period. The terminal growth rate used by management for its impairment assessment as at 31 December 2018 is 1.9 per cent (2017: 1.9 per cent).
- Discount rate reflects a beta and equity risk premium associated to GMA. The pre-tax discount rate used at 31 December 2018 is 14.3 per cent (2017: 14.4 per cent).

Management believes that any reasonably possible change in the key assumptions on which the value in use of GMA's CGU is based would not cause GMA's goodwill to be impaired.

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 corporate bond yields which have terms to maturity that match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as expected future salary increases including related on-costs and expected settlement dates are incorporated in the measurement.

Superannuation commitments

The 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 2018 $'000	31 December 2017 $'000
Annual leave	2,790	2,594
Long service leave	4,467	4,202
	7,257	6,796
Comprising:		
Current	5,280	4,914
Non-current	1,977	1,882
	7,257	6,796

As at the balance date there were 213 full time equivalent employees (2017: 216).

Notes to the financial statements (continued)

6.4 Trade and other receivables

Accounting policies

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

	31 December 2018 $'000	31 December 2017 $'000
Premium receivable	55,040	–
Trade and other receivables	16,112	2,368
Income tax receivable	9,407	10,153
	80,559	12,521
Comprising:		
Current	44,931	12,521
Non current	35,628	–
	80,559	12,521

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 2018 $'000	31 December 2017 $'000
Accrued expenses	17,545	24,286
Trade creditors and other payables	24,570	7,367
Related party payables	323	–
Derivative financial instruments	9,418	–
	51,856	31,653
Comprising:		
Current	47,554	31,653
Non-current	4,302	–
	51,856	31,653

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:

	2018 $'000	2017 $'000
Cash assets	141,450	43,025

Notes to the financial statements (continued)

Section 7 Other disclosures

7.1 Parent entity disclosures

	2018 $'000	2017 $'000
Result of the parent entity		
Profit for the year	169,883	221,418
Total comprehensive income for the year	169,883	221,418
Financial position of parent entity		
Current assets	32,203	124,774
Total assets	1,847,229	1,939,801
Current liabilities	50	2,353
Total liabilities	50	2,353
Net assets	1,847,179	1,937,448
Total equity of the parent entity comprising of:		
Share capital	1,154,084	1,303,151
Retained earnings	257,402	198,140
Share based payment	1,018	1,482
Other reserves	434,675	434,675
Total equity	1,847,179	1,937,448

7.2 Auditor's remuneration

	31 December 2018 $	31 December 2017 $
Audit and review of financial statements	831,138	747,541
Regulatory audit services	88,188	81,721
	919,326	829,262
Non-assurance services – ICAAP triennial review	35,000	13,500
	954,326	842,762

7.3 Key management personnel disclosures

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

Directors of the Company	Executive KMP
David Foster	Tobin Fonseca
Anthony (Tony) Gill (resigned on 31 August 2018)	Andrew Cormack
Ian MacDonald	Steven Degetto
Gai McGrath	Luke Oxenham (resigned on 16 February 2018)
Georgette Nicholas	William Milner (appointed Acting Chief Financial Officer on 16 February 2018)
Christine Patton (appointed on 1 September 2018)	
Leon Roday (resigned on 31 August 2018)	
Stuart Take	
Gayle Tollifson	
Jerome Upton	
Duncan West (appointed on 1 September 2018)	

The key management personnel compensation is:

	31 December 2018 $'000	31 December 2017 $'000
Short-term employee benefits	4,892	5,108
Post-employment benefits	429	227
Equity compensation benefits	629	1,117
	5,950	6,452

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 $3,550,000 for the year ended 31 December 2018 (2017: $3,974,000). There is a payable balance of $323,000 as at 31 December 2018 (2017: $373,000).

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 28.5 million shares for a total consideration of $76.4 million as at 31 December 2018. 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 the Genworth Australian General Partnership 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. The transaction has received all required U.S. insurance regulatory approvals. The closing of the transaction remains subject to other conditions, including the receipt of other required regulatory approvals in Canada and by the U.S. Financial Industry Regulatory Authority. In addition, China Oceanwide will need to receive clearance in China for currency conversion and the transfer of funds. GFI and China Oceanwide continue to be actively engaged with the relevant regulators regarding the pending applications.

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.

Name of entity	Country of incorporation	Class of shares	Equity holding (%) 2018	2017
Genworth Financial Mortgage Insurance Pty Limited	Australia	Ordinary	100	100
Genworth Financial Mortgage Indemnity Limited	Australia	Ordinary	100	100
Balmoral Insurance Company Limited	Bermuda	Ordinary	100	100

7.6 Share-based payments

Accounting policies

Share-based payment transactions

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

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

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

Notes to the financial statements (continued)

Share rights plan

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

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

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

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

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%	11.4%	11.2%	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

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.

Deferred short-term incentive

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

Notes to the financial statements (continued)

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

2018 Grant date	Balance at 1 January 2018 Number	Granted in the year Number	Exercised in the year[1] Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2018 Number	Vested and exercisable at end of the year Number
21 May 2014	294,344	–	(269,187)	(25,157)	–	–
7 May 2015	51,936	–	(22,710)	(7,934)	21,292	–
22 June 2015	3,869	–	(1,934)	–	1,935	–
6 May 2016	154,224	–	(43,158)	(36,096)	74,970	–
1 March 2017	363,374	5,890	(173,951)	(33,613)	161,700	–
1 March 2018	–	191,636[2]	(11,790)	(12,926)	166,920	–
Total	867,747	197,526	(522,730)	(115,726)	426,817	–

1 Included employees who ceased service with the Group, any unvested share rights vested immediately.

2 The number of share rights granted in the year representing the deferred short-term incentive component under the 2017 remuneration program.

2017 Grant date	Balance at 1 January 2017 Number	Granted in the year Number	Exercised in the year[1] 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[2]	(703)	(18,267)	363,374	–
Total	1,275,730	382,344	(633,387)	(156,940)	867,747	–

1 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 139,169 shares rights, representing the deferred short-term incentive component under the 2016 remuneration program.

Long-term incentive plan

The Group implemented a long-term incentive (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
1 March 2018	share rights		$1,886,491

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:
  - 25 per cent is subject to a return on equity performance condition (ROE). The Group's three year average ROE is tested against target ROEs over a three year period (2018 LTI plan).
  - 75 per cent is subject to a relative total shareholder return performance condition (TSR). The Group's TSR is tested against comparator group, the top 200 ASX financial services companies excluding Real Estate Investment Trusts over a three year period (2018 LTI plan).
- The number of share rights offered is determined by dividing the grant value of the 2018 LTI plan by $2.6611, being the 10-day volume weighted average price (VWAP) of the Company share price following the release of full-year results for 2017, 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 the 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.

	2018	2017
Grant date	1 May 2018	1 March 2017
Share price on grant date ($)	2.37	$2.81
Dividend yield	0% [1]	8.60%
Volatility	34.1%	35.0%
Correlation	A correlation matrix for the ASX 200 financial services (excluding REITs) has been used	A correlation matrix for the ASX 200 (excluding resource companies) has been used
Risk free rate (%)	2.1%	2.0%
Vesting date	31 December 2021	31 December 2020

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

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

2018 Grant date	Balance at 1 January 2018 Number	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2018 Number	Vested and exercisable at end of the year Number
7 May 2015	116,196	–	(33,696)	(82,500)	–	–
6 May 2016	648,988	–	–	(96,384)	552,604	–
1 March 2017	646,425	–	–	(115,383)	531,042	–
17 July 2017	75,025	–	–	–	75,025	–
1 March 2018	–	708,914	–	(41,148)	667,766	–
Total	1,486,634	708,914	(33,696)	(335,415)	1,826,437	–

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
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	–

Omnibus Incentive Plan

GFI and GFMI 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.

Under the Omnibus Incentive Plans, GFI issues stock options, stock appreciation rights, restricted stock, restricted stock units (RSU), other stock-based awards and dividend equivalent awards with respect to its common stock to employees of its affiliates throughout the world. The 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:

2018 Grant date	Expiry date	Exercise price $	Balance at 1 January 2018 Number	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2018 Number	Vested and exercisable at end of the year Number
13/02/2008	13/02/2018	32.37	3,000	–	–	(3,000)	–	–
19/08/2009	13/02/2018	11.07	6,288	–	–	(6,288)	–	–
10/02/2010	10/02/2020	20.13	27,000	–	–	–	27,000	27,000
09/02/2011	09/02/2021	18.10	29,000	–	–	(2,500)	26,500	26,500
14/02/2012	14/02/2022	12.61	38,100	–	–	(6,000)	32,100	32,100
15/02/2013	15/02/2023	12.86	37,000	–	–	(5,500)	31,500	31,500
20/02/2014	20/02/2024	21.62	19,500	–	–	(5,500)	14,000	14,000
Total			159,888	–	–	(28,788)	131,100	131,100
Weighted average exercise price ($)			16.34	–	–	16.58	16.29	16.29

2017 Grant date	Expiry date	Exercise price $	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
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

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.

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

2018 Grant date	Balance at 1 January 2018 Number	Granted in the year Number	Exercised in the year Number	Cancelled/ forfeited in the year Number	Balance at 31 December 2018 Number	Vested and exercisable at end of the year Number
20/02/2014	**12,746**	**–**	**(12,746)**	**–**	**–**	**–**
20/03/2015	**1,350**	**–**	**(675)**	**–**	**675**	**–**
Total	**14,096**	**–**	**(13,421)**	**–**	**675**	**–**

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
15/02/2013	21,507	–	(21,170)	(337)	–	–
2/12/2013	2,500	–	(2,500)	–	–	–
20/02/2014	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.

7.7 Events subsequent to reporting date

As these events 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 2018.

- On 6 February 2019, the directors declared a 100 per cent fully franked final dividend of 9.0 cents per share totalling $39.4 million.
- On 6 February 2019, a $100.0 million on-market share buy-back was announced (Appendix 3C lodged with the ASX on 6 February 2019).

Directors' declaration

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

the consolidated financial statements and notes set out on pages 50 to 84 are in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance, as represented by the results of its operations, and its cash flows for the period ended on that date; and

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

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

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

(c) The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the CEO and CFO for the financial year ended 31 December 2018.

Signed in accordance with a resolution of the directors

Ian MacDonald
Chairman

Dated 22 February 2019

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 2018 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 2018
- 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.

Valuation of Gross Outstanding Claims Liability – $339m

Refer to the accounting policy in Note 4.4 Outstanding Claims, Note 4.8 Accounting estimates and judgements, Note 4.9 Actuarial assumptions and methods and Note 4.1 Net claims incurred.

The key audit matter

The outstanding claims liability is a key audit matter due to the complexity of the Group's valuation methodology. This complexity requires us to exercise judgement when evaluating the methodology and assumptions adopted by the Group.

Genworth's insurance policies are very similar in nature and as a result our audit focused on the Group's consistent identification and application of common characteristics to segment the stages of claim emergence when applying frequency and severity (size) factors to calculate the outstanding claims liability. These common characteristics include region, loan originator, outstanding loan size and loan to value ratio. As a result of these factors, the estimation of the liability is highly dependent on the integrity of the underlying data.

The outstanding claims liability reflects the Groups' internal actuarial experts' 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 the Group to make assumptions 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 is likely to 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 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 and therefore are a focus of our audit attention. As a result, this key audit matter involved more senior audit team members, including actuarial specialists, who understand the valuation methodology, the Group's business, its industry and the economic and regulatory environment it operates in.

How the matter was addressed in our audit

Our procedures included:

We tested the key controls designed and operated by the Group for outstanding claims liabilities.

Along with our IT specialists, we assessed the key controls for significant data inputs used by the Group to determine the outstanding claims liability. Our assessment included testing specific reconciliation controls and interfaces from key IT systems used in the actuarial valuation processes underlying the outstanding claims liability.

We focused on the assumptions and valuation methodology used by the Group in estimating the 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, against the criteria of the accounting standards. We were assisted by our actuarial specialists in this and in our consideration of the work and findings of the Group's internal actuarial experts, including their competency, objectivity, and scope of work.

We considered the Group's valuation methodology and assumptions for consistency between reporting periods, as well as indicators of possible bias.

Our challenge focused on the assumptions applied to delinquencies and claims. We did this by:

- evaluating underlying documentation. 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. Specifically, we have considered the impact of recent trends in housing prices on the selected assumptions.
- identifying and analysing key changes in frequency and severity assumptions by comparing selected assumptions to experience exhibited to date.
- assessing the consistency of information, such as claims experience and trends across the Group's operations.

Net Earned Premium – $281M and Unearned Premium Liability – $1,214M

Refer to the accounting policy in Note 4.6, Note 4.8 Accounting estimates and judgements, and Note 4.9 Actuarial assumptions and methods.

The key audit matter	How the matter was addressed in our audit
Genworth receives payment for its insurance policies upfront, however it is their policy to recognise 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 the Group 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. As a result the complexities discussed in the key audit matter on 'Outstanding Claims Liability' are also relevant to our work over net earned premiums and the valuation of the unearned premium liability. 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 judgement applied by us in assessing the assumptions adopted by the Group. In addition to those assumptions we identified as relevant to the KAM on Outstanding Claims Liability, the Group considers the following to further impact the length and development of the earnings curve: underwriting year, loan type, policy type, premium cancellation and top-up rates. The assumptions adopted have a significant impact on the financial performance of the Group. Accordingly, we involved more senior audit team members, including our actuarial specialists, who understand the Group's business, its industry and the economic environment it operates in.	Our procedures included: We tested the key controls designed and operated by the Group for the unearned premium liability and net earned premiums. Along with our IT specialists, we assessed the key controls for significant data inputs. This included testing specific reconciliation controls, those managing the reliability of data used in the actuarial modelling processes and interfaces from key IT systems used in the valuation of the unearned premium liability. With the assistance of our Actuarial specialists we focused on the assumptions and valuation methodology used by the Group in their assessment. We performed additional procedures for each key segment of the portfolio, reflecting underwriting year, loan type and policy type and considered indicators of possible bias. These included: • an assessment of consistency in the adopted pattern of risk emergence by comparing the methodology utilised by management in the current year to the methodology adopted for previous assessments. • an assessment of sensitivity of the adopted earnings curve to more recent experience in key model assumptions including claims frequency, cancellations and top-ups. • consideration of the impact of more recent experience on the applied earnings curve as developed in 2017 for relevance and consistency. Our detailed testing also included the procedures outlined in the key audit matter on Outstanding Claims Liability as timing of revenue recognition is dependent upon future claim emergence.

Other Information

Other Information is financial and non-financial information in Genworth Mortgage Insurance Australia Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. 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.

KPMG

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Genworth Mortgage Insurance Australia Limited for the year ended 31 December 2018, 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 in pages 28 to 46 of the Directors' report for the year ended 31 December 2018.

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
22 February 2019

Shareholder information

Unless otherwise stated, the information in this section is current as at 1 February 2019.

Annual General Meeting

The 2019 AGM of Genworth Mortgage Insurance Australia Limited will be held on Thursday, 9 May 2019, 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 2019 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, 2 May 2019. 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.

Information about Genworth

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

Shareholders can register to receive an email alert advising of new Genworth media releases, financial announcements or presentations. Registration for email alerts is available on Genworth's website at 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

Shareholder information (continued)

Important dates[1]	
Company financial year end	31 December 2018
Full year results and dividend announced	6 February 2019
Record date for dividend	4 March 2019
Dividend paid	18 March 2019
Annual Report and Notice of AGM mail out commences	22 March 2019
AGM	9 May 2019

1 Note: some dates may be subject to change.

Ordinary shares and share rights

As at 1 February 2019, the Company had on issue the following equity securities:

- 437,464,832 Shares
- 2,004,363 Share Rights

Ordinary shares information

Substantial holders of ordinary shares

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

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

Twenty largest holders of ordinary shares

Rank	Name	Number of shares	% of issued shares
1	Genworth Financial International Holdings, LLC and Genworth Holdings, Inc. (as partners of the Genworth Australian General Partnership)	227,279,650	51.95
2	HSBC Custody Nominees (Australia) Limited	65,025,989	14.86
3	J P Morgan Nominees Australia Pty Limited	32,243,145	7.37
4	Citicorp Nominees Pty Limited	16,920,326	3.87
5	National Nominees Limited	15,967,483	3.65
6	Brazil Farming Pty Ltd	5,450,000	1.25
7	BNP Paribas Noms Pty Ltd	4,984,015	1.14
8	BNP Paribas Nominees Pty Ltd	3,608,482	0.82
9	Argo Investments Limited	3,208,901	0.73
10	Prudential Nominees Pty Ltd	2,640,000	0.60
11	National Exchange Pty Ltd	1,600,000	0.37
12	SCJ Pty Limited	1,000,000	0.23
13	National Nominees Limited	885,768	0.20
14	Pacific Custodians Pty Limited	781,024	0.18
15	HSBC Custody Nominees (Australia) Limited-Gsco Eca	668,478	0.15
16	Girt By Sea Investments P/L	609,159	0.14
17	BNP Paribas Nominees Pty Ltd	583,822	0.13
18	CS Third Nominees Pty Limited	558,824	0.13
19	Rhodium Capital Pty Limited	550,000	0.13
20	Buttonwood Nominees Pty Ltd	509,612	0.12
	Total for Top 20	**385,074,678**	**88.02**

Shareholder information (continued)

Distribution schedule of holders of ordinary shares

Range	Number of holders	Number of shares	% of issued shares
1–1000	1,268	652,744	0.15
1,001–5,000	2,014	5,816,428	1.33
5,001–10,000	1,031	8,073,744	1.85
10,001–100,000	1,084	27,538,348	6.29
100,001 and over	72	395,383,568	90.38
Total	**5,469**	**437,464,832**	**100.00**
Shareholders with less than a marketable parcel of 227 ordinary shares ($2.21 on 1 February 2019) is 329 and they hold 31,862 ordinary shares			

Dividend details

Share class	Dividend	Franking	Amount per share	Payment date
Ordinary	Interim	Fully franked	8.0 cents	30 August 2018
Ordinary	Special	Fully franked	4.0 cents	30 August 2018
Ordinary	Final	Fully franked	9.0 cents	18 March 2019[1]

1 Dividend declared on 6 February 2019.

Share rights information

Distribution schedule of holders of share rights

Range	Number of holders	Number of share rights	% of total share rights
1–1000	0	0	0
1,001–5,000	10	41,106	2.05
5,001–10,000	12	84,779	4.23
10,001–100,000	10	238,022	11.88
100,001 and over	4	1,640,456	81.84
Total	36	2,004,363	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 Rights Plan

525,232 shares were purchased on-market for the purposes of the Rights Plan during the period from 1 January 2018 to 31 December 2018 at an average price of $2.50 per share.

On-market share buy-back

On 1 February 2019, there was no current on-market share buy-back. On 6 February 2019, a $100.0 million on-market share buy-back was announced (Appendix 3C lodged with the ASX on 6 February 2019).

Glossary

Term	Description
AASB	Australian Accounting Standards Board
APRA	Australian Prudential Regulation Authority
ASX	Australian Securities Exchange
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
DUA	Delegated underwriting authority
2017 Earnings Curve Review	In October 2017 as part of its annual earnings curve review, the Company adjusted the way in which it recognises premium revenue with the effect of lengthening the time period over which premium is earned. The earning pattern was reviewed again in 2018 as part of the Company's annual review process and no changes were made
EPS	Earnings per share
Expense ratio	Calculated by dividing the sum of the acquisition costs and the other net 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
GMA or **the Company**	Genworth Mortgage Insurance Australia Limited ABN 72 154 890 730
Gross earned premium or **GEP**	The earned premium for a given period prior to any outward reinsurance expense
GWP	Gross written premium
HLVR	High loan to value ratio. Generally, a residential mortgage loan with an LVR in excess of 80% is referred to as an HLVR loan
IBNR	Delinquent loans that have been incurred but not reported
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
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

Glossary (continued)

Term	Description
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
LMI	Lenders Mortgage Insurance
LMI Market	The market for LMI provided by external LMI Providers and LMI subsidiaries but excluding the retention of risk by Lenders and other forms of risk mitigation or risk transfer by Lenders in relation to the credit risk of residential mortgage loans
LMI Provider	A provider of LMI, excluding LMI subsidiaries
LMI subsidiary	A provider of LMI owned or controlled by the insured or a member of its corporate group
Loss ratio	Calculated by dividing the net claims incurred by the net earned premium
LTI	Long-term incentive
LVR	Loan to value ratio. This percentage is calculated by dividing the gross value of a loan (excluding capitalisation of LMI premium) by the value of the property securing the loan. The value is based on the lower of the valuation of the underlying property accepted or externally obtained by the lender at origination or the price paid
Mark-to-market	Unrealised gains / losses (exclusive of foreign exchange)
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
PDR	Performance and Development Review
PoA	Probability of adequacy
Regulatory capital base	The sum of Tier 1 Capital and Tier 2 Capital
Return on Equity (ROE)	Calculated by dividing NPAT by the average of the opening and closing equity balance for a financial period
Rights Plan	Genworth Australia Share Rights Plan, as amended
RSU	Restricted stock units
S&P	Standard & Poor's Ratings Services

Glossary (continued)

Term	Description
Shareholder Agreement	The agreement between the Company, Genworth Holdings, Inc., Genworth Financial International Holdings, LLC and Genworth Financial dated 21 May 2014, as amended
SLT	Senior Leadership Team
STI	Short-term incentive
Supply and Service Contract	A contract between a lender customer and Genworth for the supply of LMI and related services
Technical funds	Investments held to support unearned premium and outstanding claims reserves
TFR	Total fixed remuneration
Tier 2 Capital	As defined by GPS 112, Tier 2 Capital comprises components of capital that fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of a regulated institution and its capacity to absorb losses
Underlying Equity	Underlying equity is defined as total equity excluding the after-tax impact of mark-to-market gains/(losses) on the investment portfolio, and the impact of unhedged movements in foreign exchange rates on Genworth's non-AUD exposures
Underlying NPAT	Underlying NPAT excludes the after-tax impact of mark-to-market gains/(losses) on the investment portfolio, and the impact of unhedged movements in foreign exchange rates on Genworth's non-AUD exposures. The bulk of these foreign exchange exposures are fully hedged
Underlying NPAT for STI	Underlying NPAT for STI excludes the after-tax impact of realised and mark-to-market gains/(losses) on the investment portfolio and the impact of unhedged movements in foreign exchange rates on Genworth's non-AUD exposures. The bulk of these foreign exchange exposures are fully hedged
Underlying ROE	The Underlying ROE is calculated by dividing Underlying NPAT by the average of the opening and closing Underlying Equity balance for a financial period
Underlying ROE for STI	Underlying ROE for STI is calculated by dividing Underlying NPAT for STI by the average of the opening and closing Underlying Equity balance for a financial period
VWAP	Volume weighted average price
WGEA	Workplace Gender Equality Agency

Corporate directory

Registered office

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Website: genworth.com.au

Company Secretary
Ms Prudence Milne, General Counsel & Company Secretary

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

Share registry

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680 George Street
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Australian Securities Exchange
Genworth Mortgage Insurance Australia Limited is listed under the ASX code "GMA".

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

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