

**Genworth Mortgage
Insurance Australia Limited**

ABN 72 154 890 730

Half Year Financial Report
30 June 2022

Appendix 4D

Contents	Page
1) Company details	1
2) Results for announcement to the market	1
3) Net tangible assets per security	1
4) Entities over which control has been gained or lost during the period	1
5) Dividends	1
6) Dividend reinvestment plan	2
7) Details of associates and joint venture entities	2
8) For foreign entities, which set of accounting standards is used in compiling the report	2
9) Audit dispute or qualification	2
Attachment A: Half Year Financial Report 30 June 2022	3

1) Company details

Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

Reporting period: 1 January 2022 to 30 June 2022

Previous corresponding reporting period: 1 January 2021 to 30 June 2021

2) Results for announcement to the market

	Up/ down	% change	Half year ended 30 June 2022 \$'000	Half year ended 30 June 2021 \$'000
Revenue from ordinary activities ¹	Down	(47.9%)	108,685	208,721
Net profit / (loss) from ordinary activities after income tax attributable to shareholders	Down	(68.1%)	18,931	59,366
Net profit / (loss) for the period attributable to shareholders	Down	(68.1%)	18,931	59,366

1 Includes Gross written premium, Movement in unearned premium, Other underwriting revenue, Investment income on assets backing insurance liabilities and Investment income on equity holders' funds.

Dividends	Amount per security (cents)	Franked amount per security (cents)
Interim dividend	12.0	12.0

The record date of interim dividend is 17 August 2022.

Brief explanation of any figures reported above

Please refer to the commentary in the review of operations and activities section of the directors' report and the half year results announcement accompanying this half year report.

3) Net tangible assets per security

	Half year ended 30 June 2022 \$	Half year ended 30 June 2021 \$
Net tangible assets per security	3.63	3.47

Net tangible assets per ordinary share has been determined by using the net assets on the balance sheet adjusted for intangible assets and goodwill.

4) Entities over which control has been gained or lost during the period

None

5) Dividends

Refer to note 3.1 in the half year financial report attached.

6) Dividend reinvestment plan

Not applicable

7) Details of associates and joint venture entities

On 25 February 2022, Genworth Financial Mortgage Insurance Pty Limited (GFMI) purchased 25.1% of OSQO Enterprise Pty Limited for a consideration of \$5,000,000.

8) For foreign entities, which set of accounting standards is used in compiling the report

Not applicable

9) Audit dispute or qualification

Not applicable

Genworth Mortgage Insurance Australia Limited

ABN 72 154 890 730

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2022

Contents

Directors' report3
Lead auditor's independence declaration6
Consolidated financial statements7
Directors' declaration28
Independent auditor's review report29

Directors' report

The Directors present their report together with the financial statements of Genworth Mortgage Insurance Australia Limited (the Company) and its controlled entities (the Group) for the half year ended 30 June 2022 and the independent auditor's review report thereon.

Directors

The directors of the Company at any time during or since the end of the half year ended 30 June 2022 are as follows:

Pauline Blight-Johnston
Ian MacDonald (Chairman)
Gai McGrath
Andrea Waters
Duncan West
Alistair Muir
Gerd Schenkel
David Foster (resigned 31 March 2022)

Principal activity

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

Review and results of operations

The Group reported a net profit after tax of \$18.9m for the half year to 30 June 2022 compared with the net profit after tax of \$59.4 million for the half year to 30 June 2021. The reduction in the net profit after tax has been driven by unrealised losses on the investment portfolio.

The underwriting result of \$172.5m (30 June 2021: \$87.7m) has continued to benefit from a lower than normal level of incurred claims during the period.

The increase in bond yields and the drop in global share markets during the period have resulted in a loss of investments of \$142.2m (June 2021: gain of \$1.1m).

Regulatory capital

The Group's regulatory capital at 30 June 2022 was 2.1 times the Prescribed Capital Amount (PCA) on a level 2 basis and the Common Equity Tier 1 (CET1) ratio was 1.9 times. Regulatory capital is above the Board's target capital range of 1.4 to 1.6 times and reflects its strong capital position.

Corporate structure

The company is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange (ASX).

Share buy-back

On 23 June 2022, the Company completed the share buy-back announced on 23 November 2021. The total number of shares purchased in the period was 34.1m for consideration of \$97.6m and 1.0m shares purchased in December 2021 for consideration of \$2.4m.

Market capitalisation

The market capitalisation of the Company at 30 June 2022 was \$868.1m based on the closing share price of \$2.30.

Dividends

The Company paid an ordinary dividend per share of 12 cents amounting to \$48,915,028 and a special dividend of 12 cents amounting to \$48,915,028 to its shareholders on 25 March 2022.

The Company has proposed a dividend of 12 cents per share amounting to \$45,292,609 to be paid on 31 August 2022.

Environmental regulations

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

Events subsequent to reporting date

On 3 August 2022, the directors declared an interim dividend of 12 cents per ordinary share totalling \$45,292,609 for the half year ended 30 June 2022.

On 3 August 2022, the Board approved its intention to commence an additional on-market share buy-back for shares up to a maximum of aggregate value of \$100m. The total number of shares to be purchased by Genworth will depend on business and market conditions, the prevailing share price, market volumes and other considerations.

There are no other events that have arisen since 30 June 2022 to the date of this report that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Company or the state of affairs of the Company in future years.

Likely developments

As a result of the separation from the previous majority shareholder the Company needs to adopt a new name. Significant groundwork has been undertaken on the rebranding of the business and shareholders will be asked to approve the new Company name in the fourth quarter of 2022.

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

Rounding off

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

Lead auditor's independence declaration

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

Signed in accordance with a resolution of the Directors:



Ian MacDonald

Chairman

Dated: 3 August 2022



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 review of Genworth Mortgage Insurance Australia Limited for the half-year ended 30 June 2022 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Julia Gunn

Partner

Sydney

3 August 2022

Consolidated financial statements

Contents

Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Section 1 Basis of preparation	12
1.1 Reporting entity	12
1.2 Significant accounting policies.....	12
Section 2 Investments	16
2.1 Investments	16
2.2 Derivative financial instruments.....	17
2.3 Equity Accounted Investments	18
Section 3 Results for the period	18
3.1 Dividends.....	18
3.2 Earnings per share	18
Section 4 Insurance contracts	19
4.1 Outstanding claims	19
4.2 Non-reinsurance recoveries	20
4.3 Accounting estimates and judgements (including Actuarial assumptions and methods)	20
4.4 Liability adequacy test	21
Section 5 Capital management and financing.....	22
5.1 Interest bearing liabilities	22
5.2 Share capital.....	23
5.3 Contingencies.....	23
Section 6 Other disclosures	23
6.1 Related party disclosures	23
6.2 Share-based payments	23
6.3 Events subsequent to reporting date.....	26

Consolidated statement of comprehensive income

For the half year ended 30 June 2022

	Note	30 June 2022 \$'000	30 June 2021 \$'000
Gross written premium		188,571	289,715
Movement in unearned premium		59,702	(84,601)
Outward reinsurance premium expense		(31,760)	(34,247)
Net earned premium		216,513	170,867
Net claims written back/(incurred)		3,026	(49,320)
Acquisition costs		(10,929)	(3,549)
Other underwriting expenses		(36,696)	(30,865)
Other underwriting revenue		599	599
Underwriting result		172,513	87,732
Investment (loss) on assets backing insurance liabilities		(93,006)	(16,225)
Insurance profit		79,507	71,507
Investment (loss)/income on equity holders' funds		(47,181)	19,233
Investment expense on equity holders' funds		(2,009)	(1,938)
Financing costs		(5,110)	(5,119)
Profit before income tax		25,207	83,683
Income tax expense		(6,276)	(24,317)
Profit for the period		18,931	59,366
Total comprehensive income for the period		18,931	59,366
Earnings per share			
Basic earnings per share (cents per share)	3.2	4.7	14.4
Diluted earnings per share (cents per share)	3.2	4.7	14.4

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

Consolidated statement of financial position

As at 30 June 2022

	Note	30 June 2022 \$'000	31 December 2021 \$'000
Assets			
Cash and cash equivalents		19,047	76,724
Accrued investment income		21,423	16,837
Investments	2.1	3,357,621	3,627,122
Equity-accounted Investment	2.3	5,000	-
Trade and other receivables		12,171	7,821
Prepayments		11,993	4,203
Deferred reinsurance expense		28,871	8,665
Non-reinsurance recoveries	4.2	20,663	21,604
Deferred acquisition costs		104,017	88,510
Plant and equipment		3,567	3,448
Lease assets		2,471	3,618
Deferred tax assets		32,624	40,994
Intangibles		3,796	4,643
Goodwill		9,123	9,123
Total assets		3,632,387	3,913,312
Liabilities			
Trade and other payables		36,478	79,360
Lease liabilities		5,240	7,663
Reinsurance payable		37,186	21,359
Outstanding claims	4.1	464,251	480,256
Unearned premium		1,512,132	1,571,834
Employee benefits provision		7,072	7,282
Interest bearing liabilities	5.1	188,462	188,229
Total liabilities		2,250,821	2,355,983
Net assets		1,381,566	1,557,329
Equity			
Share capital	5.2	990,180	1,087,762
Share-based payment reserve		1,524	806
Other reserves		(476,559)	(476,559)
Retained earnings		866,421	945,320
Total equity		1,381,566	1,557,329

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

Consolidated statement of changes in equity

For the half year ended 30 June 2022

	Share capital	Other reserves	Retained earnings	Share-based payment reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2021	1,090,180	(476,559)	773,125	1,174	1,387,920
Profit after taxation	-	-	59,366	-	59,366
Share-based payment expense recognised	-	-	-	176	176
Share-based payment settled	-	-	-	(730)	(730)
Balance at 30 June 2021	1,090,180	(476,559)	832,491	620	1,446,732
Balance at 1 January 2022	1,087,762	(476,559)	945,320	806	1,557,329
Dividend declared and paid	-	-	(97,830)	-	(97,830)
Buy-back of shares, including transaction costs	(97,582)	-	-	-	(97,582)
Profit after taxation	-	-	18,931	-	18,931
Share-based payment expense recognised	-	-	-	892	892
Share-based payment settled	-	-	-	(174)	(174)
Balance at 30 June 2022	990,180	(476,559)	866,421	1,524	1,381,566

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

Consolidated statement of cash flows

For the half year ended 30 June 2022

	Note	30 June 2022 \$'000	30 June 2021 \$'000
Cash flows from operating activities			
Premiums received		207,785	316,368
Interest and other income		18,427	20,561
Claims paid		(12,329)	(25,205)
Interest paid		(7,198)	(4,850)
Outwards reinsurance premium expense paid		(36,139)	(37,719)
Cash payments in the course of operations		(119,872)	(103,038)
Income tax (paid)/refund		(32,300)	1,878
Net cash generated by operating activities		18,374	167,995
Cash flows from investing activities			
Payment for plant and equipment and intangibles		(568)	-
Payments for the purchase of investments		(955,615)	(1,160,288)
Proceeds from sale of investments		1,082,177	978,599
Payments for Investment in Associate		(5,000)	-
Proceeds from sub-lease of property		920	957
Net cash generated by / (used) in investing activities		121,914	(180,732)
Cash flows from financing activities			
Dividends paid		(97,830)	-
Buy-back of shares, including transactions costs		(97,582)	-
Payment of lease liabilities		(2,568)	(2,250)
Net cash used in financing activities		(197,980)	(2,250)
Net decrease in cash held		(57,692)	(14,987)
Effects of exchange rate changes on balances of cash held in foreign currencies		15	53
Cash and cash equivalents at the beginning of the financial year		76,724	104,557
Cash and cash equivalents at the end of the financial period		19,047	89,623

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

Section 1 Basis of preparation

1.1 Reporting entity

This general purpose consolidated financial report is for the half year ended 30 June 2022 and comprises the consolidated financial statements of Genworth Mortgage Insurance Australia Limited (the Company) 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 Australian Securities Exchange (ASX). The Group operates in one business and operating segment consisting of lenders mortgage insurance business in Australia, therefore no segment information is presented.

The financial statements were authorised for issue by the Board of Directors on 3 August 2022.

The consolidated half year financial report does not include all the information required for full annual financial reports and should be read in conjunction with the annual report for the year ended 31 December 2021 and any public announcements made during the half year reporting period in accordance with the continuous disclosure reporting requirements of the *Corporations Act 2001*.

1.2 Significant accounting policies

(a) Statement of compliance

This consolidated financial report is a general-purpose half year financial report that has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and all other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the ASX listing rules.

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

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

(b) Basis of preparation of the financial report

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 consolidated financial statements have been prepared on the historical cost basis except for investments and derivatives being stated at fair value and outstanding claims and the related recoveries on unpaid claims being reported at present value. All values are rounded to the nearest thousand dollars, unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191

(c) Accounting policies adopted

The accounting policies adopted in the preparation of these financial statements have been applied consistently by the Group and are the same as those applied for the previous reporting period, unless otherwise stated.

(i) New and amended standards adopted by the Group

There are additional new accounting standards and interpretations, effective on or after 1 January 2022 (refer to the table below) which were adopted by the Group. The adoption of these standards did not have a material effect on the Group's financial statements.

	New standards, amendments and interpretations	Operative date
AASB 2017-5	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2022
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022

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

There are various new accounting standards, amendments and interpretations noted below which are effective after 30 June 2022 and have not been applied in preparing these consolidated financial statements. An initial assessment of the financial impact of these standards and amendments has been undertaken and they are not expected to have a material impact on the Group's financial statements, except for AASB 17 and AASB 9, which has been noted in the Annual Report for the year ended 31 December 2021. In July 2022, the International Accounting Standards Board (IASB) will endorse the International Financial Reporting Standards Interpretations Committee (IFRIC) agenda decision on Cash received via Electronic Transfer as Settlement for a Financial Asset. The Group has yet to consider the implication of this agenda decision.

	New standards, amendments and interpretations	Operative date
AASB 17	Insurance Contracts	1 January 2023
AASB 9	Financial Instruments	1 January 2023 (subject to exemption)
AASB 2022-1	Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information	1 January 2023
AASB 2020-1 / AASB 2020-6	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2023
AASB 2021-2	Amendments to Australian Accounting Standards – Disclosures of Accounting Policies and Definition of Accounting Estimates	1 January 2023
AASB 2021-5	Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 2023

(d) AASB 17 – Insurance Contracts

AASB 17, the new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board in July 2020. The first applicable annual reporting period for the Group will be for the year ending 31 December 2023, with the comparative period for the year ending 31 December 2022 and the Statement of Financial Position at 1 January 2022.

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

Insurance contracts – the Group currently comprises a single portfolio of insurance contracts with similar risks which are managed together. The Group expects that all its contracts considered to be insurance contracts under AASB 1023 will continue to be accounted for as insurance contracts under AASB 17.

Under AASB 17, the insurance contract portfolio is required to be disaggregated to a more granular level into underwriting years and levels of profitability at inception.

For the Group's direct insurance business, the insurance contract is expected to be deemed at the borrower level (as opposed to the lender policyholder) as the Group has the ability to accept or reject individual applications. For the Group's inward reinsurance business, the insurance contract is expected to be at the lender policyholder level. The Group is expecting to include direct contracts issued and reinsurance contracts issued in different groups.

Level of aggregation – the Group’s single portfolio of insurance contracts needs to be disaggregated by underwriting years, with a further breakdown for contracts considered onerous (unprofitable).

Measurement overview – AASB 17 also introduces a new general measurement model for accounting of insurance contracts based on fulfilment cashflows (discounted future cash flows risk adjusted for non-financial risk) and contractual service margin (CSM). The application of a simplified approach is permitted in certain circumstances, although the vast majority of insurance contracts underwritten by the Group are not expected to meet the requirements of the simplified approach due to their long-term coverage period.

Fulfilment cash flows – all future fulfilment cash flows relating to in-force insurance contracts need to be estimated and recognised within the insurance contract liabilities.

CSM – for each group of insurance contracts, the required future profit is included within the insurance contract liabilities and represents the CSM. The CSM is released to insurance revenue over the coverage period as the insurance service is provided by the Group. The provision of insurance service, which underpins the recognition of the CSM, is expected to be based on several factors including the estimated negative equity within the portfolio (shortfall of the property value compared with the outstanding loan balance). This is expected to be estimated by adjusting the outstanding loan balance by severity factors, informed by past experience. These assumptions will be reviewed on a regular basis.

Risk adjustment – the insurance liabilities also include a risk adjustment for non-financial risk under AASB 17 to reflect the compensation that the entity requires for bearing uncertainty about the amount and timing of the cash flows. The risk adjustment is expected to be determined using a confidence level approach.

Discounting – the fulfilment cash flows within the insurance contract liabilities are required to be discounted using discount rates that are based on market rates at the valuation date. The Group expects to recognise the insurance finance expense (effect of unwinding the discounting impact and the changes in discount rates) fully in profit or loss, as opposed to disaggregating it between profit or loss and other comprehensive income. This would ensure the most effective matching with the investment portfolio which is expected to be measured at fair value through profit or loss upon adoption of AASB 9 as disclosed in note 1.2(e)

Presentation and disclosures – AASB 17 introduces substantial changes to the presentation and disclosures of the financial statements. The disclosures are expected to be more extensive, requiring increased granularity and analysis of movements.

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

The Group expects the timing of recognition of profit will change under AASB 17 due to the different valuation method used to determine the insurance liability. This could lead to a significant change in the net asset position on transition at 1 January 2022. At the date of this report, the financial impact of adopting AASB 17 remains uncertain and cannot be reasonably estimated by the Group.

(e) 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, including the current tax liability, relative to the total carrying amount of all its liabilities was greater than 90%).

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

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

The 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 on a fair value basis. Under the Group's current business model, it is expected the adoption of AASB 9 is likely to result in the investment portfolio continuing to be measured at fair value through profit or loss. Hence, the Group does not expect any material changes to the carrying value of its financial instruments upon the adoption of AASB 9.

(f) 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 the 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.

Judgement 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 4.3.

The approach to key estimates and judgements for this reporting period are consistent with those noted in the Annual Report for the year ended 31 December 2021.

Estimation uncertainty related to the COVID-19 pandemic continues to impact the preparation of the financial statements. However, the level of uncertainty has reduced significantly and other economic factors such as unemployment, interest rates, inflation and house prices have become more relevant.

To the extent estimation uncertainty exists, Genworth has considered the forecasts of economic conditions which will reflect the expectations and assumptions as at 30 June 2022 about future events that the directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions may be different from those forecasts since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of the outstanding claims liability and unearned premium including the estimates of future claims and related expenses for the preparation of the liability adequacy test, recoverable amount assessments of non-financial assets and fair value measurement of investments.

(g) Goodwill and intangible assets impairment

The assumptions underpinning the value-in-use calculations used to evaluate the recoverability of goodwill and intangible assets reflect the risks associated with the estimated cash flows. Whilst there is no impairment in relation to the cash-generating unit at 30 June 2022, there is a level of uncertainty around key assumptions in the current environment. This has the potential to materially impact the value-in-use assessment moving forward and potentially the carrying value of the respective intangible assets and goodwill.

(h) Fair value measurement of investments

The Group's investments are designated at fair value through profit and loss and for the majority of the investments, the fair value is determined based on observable market data. The investments which are subject to valuation using unobservable inputs are disclosed in the Group's fair value hierarchy. Refer to note 2.1 for further details on investments.

Section 2 Investments

2.1 Investments

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

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

- *Cash assets and bank overdrafts* are carried at face value of the amounts deposited or drawn.
- *Interest bearing instruments, derivatives and unlisted equities* are initially recognised at fair value, determined as the quoted cost at date of acquisition. They are subsequently remeasured to fair value at each reporting date. For securities traded in an active market, fair value is determined by reference to published bid price quotations. For securities not traded and securities traded in a market that is not active, fair value is determined using valuation techniques with the most common technique being reference to observable market data using the fair values of recent arm's length transactions involving the same or similar instruments. In the absence of observable market information, unobservable inputs which reflect management's view of market assumptions are used. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs.
- *Unlisted unit trust securities* are valued using quoted current unit prices as advised by the responsible entity, trustee or equivalent of the investment vehicle.

Financial assets backing general insurance liabilities

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

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

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

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

Financial assets not backing general insurance liabilities

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

The Group investments carried at fair value have been classified under the three levels of the AASB 13 fair value hierarchy as follows:

- Level 1 - Quoted prices in an active market: Fair value investments which are quoted in active and known markets. The quoted prices are those at which transactions have regularly and recently taken place within such markets.
- Level 2 - Valuation techniques with observable parameters: Fair value investments using inputs other than quoted prices within Level 1 that are observable either directly or indirectly.
- Level 3 - Valuation techniques with significant unobservable parameters: Fair value investments using valuation techniques that include inputs that are not based on observable market data. This category includes the unlisted equities. The fair value has been supported either based on a discounted cash flow analysis performed utilising the latest available cash flows projection from the entity or the most recent capital raising price of the unlisted equity investments.

30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial instruments				
Australian government and state-government bonds	-	1,486,374	-	1,486,374
Corporate bonds and others	-	1,425,414	-	1,425,414
Short-term deposits	190,223	-	-	190,223
Derivative assets	-	76	-	76
Unlisted unit trusts – Equity	-	194,281	-	194,281
Unlisted unit trusts – Infrastructure ¹	-	53,579	-	53,579
Unlisted equities	-	-	7,674	7,674
Total	190,223	3,159,723	7,674	3,357,621

¹ There were \$126m of undrawn commitments to an externally managed unlisted infrastructure fund at 30 June 2022 (31 December 2021: \$180m)

31 December 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial instruments				
Australian government and state-government bonds	-	1,063,850	-	1,063,850
Corporate bonds and others	-	2,072,469	-	2,072,469
Short-term deposits	289,489	-	-	289,489
Unlisted unit trusts - Equity	-	193,640	-	193,640
Unlisted equities	-	-	7,674	7,674
Total	289,489	3,329,959	7,674	3,627,122

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

	Balance at 1 January 2022	Purchases	Disposals	Movement in fair value	Balance at 30 June 2022
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Instruments					
Unlisted equities	7,674	-	-	-	7,674
Total	7,674	-	-	-	7,674

There have been no further investments in level 3 unlisted equities.

2.2 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 and attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value through profit or loss. The investment related derivatives are presented together with the underlying investments or as payables when the fair value is negative. Forward foreign exchange contracts are determined using observable inputs (level 2 in the fair value hierarchy).

Reporting date positions

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

	30 June 2022			31 December 2021		
	Exposure \$'000	Fair value asset \$'000	Fair value liability \$'000	Exposure \$'000	Fair value asset \$'000	Fair value liability \$'000
Forward foreign exchange contracts	325,730	76	8,660	339,120	-	10,260

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

2.3 Equity Accounted Investments

On 25 February 2022, Genworth Financial Mortgage Insurance Pty Limited (GFMI) purchased 25.1% of OSQO Enterprise Pty Limited (OSQO) for a consideration of \$5,000,000. Genworth and OSQO will work together on a new deposit gap funding solution to provide more options to home buyers now and for the future.

No change in the carrying value of the investment has been made at 30 June 2022

Section 3 Results for the period

3.1 Dividends

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.

	30 June 2022		30 June 2021	
	Cents per share	\$'000	Cents per share	\$'000
2021 final dividend paid on 25 March 2022 fully franked	12.0	48,915	-	-
2021 special dividend paid on 25 March 2022 fully franked	12.0	48,915	-	-

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 the finalisation of this financial report and therefore it has not been recognised in this financial report.

	30 June 2022		30 June 2021	
	Cents per share	\$'000	Cents per share	\$'000
Interim fully franked dividend to be paid on 31 August 2022 (2021:31 August 2021 unfranked)	12.0	45,293	5.0	20,626

3.2 Earnings per share

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.

	30 June 2022	30 June 2021
Basic earnings per share (cents per share)	4.7	14.4
Diluted earnings per share (cents per share)	4.7	14.4

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

	30 June 2022 \$'000	30 June 2021 \$'000
Net profit after tax	18,931	59,366
Net profit used in calculating basic and diluted earnings per share	18,931	59,366

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

	30 June 2022 '000	30 June 2021 '000
Weighted average number of ordinary shares on issue	399,625	412,514
Weighted average number of shares used in the calculation of basic earnings per share	399,625	412,514
<i>Weighted average number of dilutive potential ordinary shares</i>		
Bonus element of shares	296	376
Weighted average number of shares used in the calculation of diluted earnings per share	399,921	412,890

Section 4 Insurance contracts

4.1 Outstanding claims

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) including an allowance for future redelinquency, and the expected direct and indirect costs of settling those claims. Outstanding claims are assessed by estimating the ultimate cost of claims arising from incurred delinquencies, using statistics based on past experience and trends. Changes in outstanding claims are recognised in profit or loss in the reporting period in which the estimates are changed.

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

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

Refer to note 4.3 Accounting estimates and judgements for further detailed information.

	30 June 2022 \$'000	31 December 2021 \$'000
Central estimate	396,554	410,219
Risk margin	67,697	70,037
Gross outstanding claims	<u>464,251</u>	<u>480,256</u>

Reconciliation of changes in outstanding claims

	30 June 2022 \$'000	31 December 2021 \$'000
Balance as at 1 January 2022	480,256	540,353
Current period net claims written back	(3,026)	(8,266)
Movement in non-reinsurance recoveries and borrower recoveries	(941)	(11,682)
Claims paid	(12,038)	(40,149)
Closing balance	<u>464,251</u>	<u>480,256</u>

Comprising:		
Current	89,438	95,869
Non-current	374,813	384,387
	464,251	480,256

4.2 Non-reinsurance recoveries

Reinsurance and non-reinsurance recoveries receivable on paid claims, reported claims not yet paid and IBNR claims are recognised as revenue. Recoveries receivable on paid claims are presented as part of non-reinsurance recoveries receivable net of any provision for impairment based on objective evidence for individual receivables. Recoveries receivables 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. The following table presents non-reinsurance recoveries.

	30 June 2022 \$'000	31 December 2021 \$'000
Balance as at 1 January 2022	21,604	33,286
Movement of non-reinsurance recoveries	(941)	(11,682)
Closing balance	20,663	21,604

There were no reinsurance recoveries at 30 June 2022 (31 December 2021: nil).

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

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 gross premium revenue / unearned premium / deferred acquisition costs

Premium is earned over periods of up to 12 years. The principle underlying the earning recognition is to derive a premium earnings curve which recognises the premium in accordance with the incidence of claims risk.

The premium earnings curve is evaluated based on 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 earnings curve. Changes to earnings curve assumptions, which in turn impact the timing of the recognition of unearned premium and deferred acquisition costs (DAC), are recognised prospectively. Changes are recommended by the Appointed Actuary when the results of an analysis indicate an ongoing change in the pattern of emergence of risk.

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

Estimation of outstanding claims liabilities

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

The estimated cost of claims includes 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.

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.

The delinquency and claim experience in 1H2022 has been favourable with lower numbers of new delinquencies reported and lower ageing of delinquencies due to significant house price increases in the preceding year. In establishing the net outstanding claims liability, significant management judgement has been applied to derive a reasonable estimate of the probability-weighted view of potential future cash flows. All related uncertainties have been factored into the Group's probability weighting when estimating the provision.

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

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

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

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

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

In applying this formula:

- The outstanding loan amount insured is the total outstanding amount on those loans advised to the 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.

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.

4.4 Liability adequacy test

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

The probability of adequacy (POA) adopted for the liability adequacy test is set at 70% and differs from the 75% probability of adequacy adopted in determining the outstanding claims liabilities. The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the risk margin included in the carrying value of the outstanding claims liabilities.

Expected future claims are inherently uncertain, The Group has projected future claims based on a range of possible economic scenarios and has adopted a central scenario estimate for the liability valuation incorporating a median view of economic forecasts, adjusted for management outlook in specific areas of judgement, including the different composition of Genworth's borrower base and delinquency portfolio compared with the overall Australian workforce and housing market composition.

At 30 June 2022, under the Group's central scenario estimate, expected future claims (including an appropriate risk margin) did not exceed the net insurance liabilities. The Group had a LAT surplus of \$506.0 million (31 December 2021: \$558.2 million).

Section 5 Capital management and financing

5.1 Interest bearing liabilities

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

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

The Group considers the carrying value of the interest-bearing liabilities to approximate its fair value.

	30 June 2022 \$'000	31 December 2021 \$'000
Subordinated notes	190,000	190,000
Less: capitalised transaction costs	(1,538)	(1,771)
	<u>188,462</u>	<u>188,229</u>

On 3 July 2020, Genworth Financial Mortgage Insurance Pty Limited (GFMI) exchanged \$146,575,000 of the outstanding \$200,000,000 due in July 2025 (existing 2015 notes) for \$146,575,000 of new 10-year non-call five-year floating rate subordinated notes due on 3 July 2030 (new 2020 notes). GFMI also issued \$43,425,000 additional new 2020 notes. The new 2020 notes totalling \$190,000,000 qualify as Tier 2 Capital under APRA's capital adequacy framework.

Key terms and conditions are:

- Interest is payable quarterly in arrears, with the rate each calendar quarter being the average of the 90-day bank bill swap rate at the end of the prior quarter plus a margin equivalent to 5.0% per annum.
- The notes mature on 3 July 2030 (non-callable for the first five years) with the issuer having the option to redeem at par from 3 July 2025. Redemption at maturity, or any earlier date provided for in the terms and conditions of issue, is subject to prior approval by APRA.

5.2 Share capital

	30 June 2022	30 June 2022	31 December 2021	31 December 2021
	Number of shares		Number of shares	
	'000	\$'000	'000	\$'000
Issued fully paid capital				
Balance as at 1 January	411,492	1,087,762	412,514	1,090,180
Buy-back shares, including transaction costs	(34,054)	(97,582)	(1,022)	(2,418)
Closing balance	<u>377,438</u>	<u>990,180</u>	<u>411,492</u>	<u>1,087,762</u>

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.

As set out, the Company has continued and completed an on-market share back in the first half of 2022, started in December 2021.

5.3 Contingencies

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

There were no contingent liabilities as at 30 June 2022 (31 December 2021: nil).

Section 6 Other disclosures

6.1 Related party disclosures

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

6.2 Share-based payments

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.

Key terms and conditions:

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

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	<ul style="list-style-type: none"> For Executives: Half of the dollar value of the annual Short-Term Incentive (STI) is converted to a grant of deferred share rights, with half of the deferred share rights to vest after 12 months and the remaining half after 24 months. To ensure nominal award amounts are not subject to deferral, a minimum \$10,000 balance is required prior to deferral being applied to the incentive award; For non-executive employees: 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 and delivered 12 months following the payment of the original award amount. To ensure nominal award amounts are not subject to deferral, a minimum \$10,000 balance is required prior to deferral being applied to the incentive award; 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 each deferral period. 	<ul style="list-style-type: none"> For Executives: Continuous active employment for 12 months from grant date for the first tranche, and for 24 months for the second tranche; For non-executive employees: Continuous active employment for 12 months from grant date; Board and Committee satisfaction that adverse outcomes have not arisen that were not apparent when performance was assessed, and satisfaction that there was not excessive risk taking in achievement of results.

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

2022						
Grant date	Balance at 1 January 2022	Granted in the period	Exercised in the period	Cancelled/forfeited in the period	Balance at 30 June 2022	Vested and exercisable at end of the period
	Number	Number	Number	Number	Number	Number
1 March 2021 ¹	20,802	341	(21,143)	-	-	
1 March 2022 ²	-	428,847	-	-	428,847	
Total	20,802	429,188	(21,143)	-	428,847	-

¹ The number of share rights granted in the period representing the deferred short-term incentive component under the 2020 remuneration program.

² The number of share rights granted in the period representing the deferred short-term incentive component under the 2021 remuneration program.

2021						
Grant date	Balance at 1 January 2021	Granted in the period	Exercised in the period	Cancelled/forfeited in the period	Balance at 30 June 2021	Vested and exercisable at end of the period
	Number	Number	Number	Number	Number	Number
1 March 2017 ¹	40,177	-	(40,177)	-	-	-
1 March 2020	117,533	3,237 ³	(120,770)	-	-	-
1 March 2021 ²	-	20,802	-	-	20,802	-
Total	157,710	24,039	(160,947)	-	20,802	-

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

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

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

Long term incentive plan

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

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

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

On 1 March 2022, under the 2021 long term incentive (“LTI”) Plan, share rights were granted to the senior management team.

LTI grant date	Nature of award	Total (\$)
1 March 2018	Share rights	\$1,886,491
1 March 2019	share rights	\$1,688,601
1 March 2020	share rights	\$1,771,188
1 March 2021	share rights	\$1,694,685
1 March 2022	share rights	\$2,359,584

Key terms and conditions for the 2022 LTI

- The rights are granted for nil consideration.
- Holders are entitled to receive notional dividend equivalents during the vesting period but do not have voting rights.
- Each allocation is split into two portions which are subject to different performance hurdles with a twelve-month deferral period after the performance period ends. The first vesting condition is not market related and requires continuous active employment for four years from grant date. The second set of vesting conditions are as follows:

25% is subject to underlying return on equity (“ROE”) performance condition. The average of the Group’s annual underlying ROE measured against regulatory capital (based on the upper end of the Board’s target range above the prescribed capital amount) is tested against target underlying ROEs over a four-year period, calculated on a quarterly basis and weighted for each year during the performance period as follows:

- 2022 – 25.0%
- 2023 – 25.0%
- 2024 – 25.0%
- 2025 – 25.0%

75% is subject to relative total shareholder return (“TSR”) performance condition. The Group’s TSR is tested against comparator group, the ASX 200 financial services excluding Real Estate Investment Trust (“REITs”) over a three-year period.

- The number of share rights offered is determined by dividing the grant value of the 2021 long term incentive plan by \$2.37, being the 10-day volume weighted average price (“VWAP”) of the Company share price as at 31 December 2021 results, rounded down to the nearest whole share right. Each share right is a right granted to acquire a fully paid ordinary share of the Company.
- The fair value of the share rights is the share price as at the grant date.

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

The fair value of the share rights for LTI linked to relative TSR performance hurdles 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.

	2022	2021	2020	2019
Grant date	1 March 2022	1 March 2021	1 March 2020	1 March 2019
Share price on grant date (\$)	\$3.11	\$2.42	\$3.22	\$2.53
Dividend yield (%)	0% ¹	0% ¹	0% ¹	0% ¹
Volatility (%)	50.66%	48.23%	31.94%	31.02%
Correlation	A correlation matrix for the ASX 200 financial services (excluding REITs) has been used	A correlation matrix for the ASX 200 financial services (excluding REITs) has been used	A correlation matrix for the ASX 200 financial services (excluding REITs) has been used	A correlation matrix for the ASX 200 financial services (excluding REITs) has been used
Risk free rate (%)	1.67%	0.40%	0.54%	2.24%
Vesting date	31 December 2025	31 December 2024	31 December 2023	31 December 2022

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 period were as follows:

2022						
Grant date	Balance at 1 January 2022	Granted in the period	Exercised in the period	Cancelled/forfeited in the period	Balance at 30 June 2022	Vested and exercisable at end of the period
	Number	Number	Number	Number	Number	Number
1 March 2018¹		52,662	(52,662)		-	-
1 March 2019	437,970	-	-	-	437,970	-
1 March 2020	323,808	-	-	-	323,808	-
1 March 2021	808,622	-	-	-	808,622	-
1 March 2022	-	995,605	-	-	995,605	-
Total	1,570,400	1,048,267	(52,622)	-	2,566,005	-

¹ Represents notional dividends awarded as share rights associated with 2018 LTI plan share rights that had previously vested/been exercised on 31 December 2021.

2021						
Grant date	Balance at 1 January 2021	Granted in the period	Exercised in the period	Cancelled/forfeited in the period	Balance at 30 June 2021	Vested and exercisable at end of the period
	Number	Number	Number	Number	Number	Number
1 March 2017 ¹	-	62,915	(62,915)	-	-	-
1 March 2018	246,982	-	-	-	246,982	-
1 March 2019	471,407	-	-	-	471,407	-
1 March 2020	450,708	-	-	(24,752)	425,956	-
1 March 2021	-	993,777	-	(42,799)	950,978	-
Total	1,169,097	1,056,692	(62,915)	(67,551)	2,095,323	-

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

6.3 Events subsequent to reporting date

On 3 August 2022, the directors declared a 12.0 cent per ordinary share fully franked interim dividend totalling approximately \$45.3m for the half year ended 30 June 2022.

On 3 August 2022, the Board approved its intention to commence an additional on-market share buy-back for shares up to a maximum of aggregate value of \$100m. The total number of shares to be purchased by

Genworth will depend on business and market conditions, the prevailing share price, market volumes and other considerations.

There are no other events that have arisen since 30 June 2022 to the date of this report that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Group or the state of affairs of the Group in future years.

Directors' declaration

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

- a) the condensed consolidated financial statements and notes set out on pages 7 to 27 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance, as represented by the results of its operations and its cash flows for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; 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.

The directors have been provided with the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the half year ended 30 June 2022.

Signed in accordance with a resolution of the Directors



Ian MacDonald

Chairman

Dated: 3 August 2022



Independent Auditor's Review Report

To the shareholders of Genworth Mortgage Insurance Australia Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Genworth Mortgage Insurance Australia Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Genworth Mortgage Insurance Australia Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2022 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2022;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 6 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Genworth Mortgage Insurance Australia Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.



Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Julia Gunn

Partner

Sydney

3 August 2022