Helia

ASX Announcement

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2024 Half Year Results

20 August 2024: Helia Group Limited (Helia or the Company) (ASX:HLI) today reported its financial results for the half year ended 30 June 2024 (1H24).[1]

The Company reported a Statutory net profit after tax (NPAT) of $97.0 million and Underlying NPAT of $106.5 million. Statutory NPAT was lower than Underlying NPAT mainly as a result of pre-tax mark to market unrealised losses on the bond portfolio due to rising interest rates.

The Helia Board has declared a fully franked interim ordinary dividend of 15.0 cents per share payable on 19 September 2024 to shareholders registered as at 5 September 2024.

1H24 highlights	1H23	1H24	1H24 v 1H23 (%)
Statutory net profit after tax (NPAT) ($m)	147.5	97.0	(34)
Statutory diluted earnings per share (cps)	43.6	32.6	(25)
Underlying net profit after tax ($m)[2]	137.2	106.5	(22)
Underlying diluted earnings per share (cps)	40.6	35.8	(12)
Ordinary dividend per share (cps)	14.0	15.0	7
Net tangible assets per share ($)	3.49	3.63	4
Annualised underlying return on equity (ROE) (%)	23.7	19.3	(440 bps)

Helia Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston, said "I am pleased to deliver another strong interim profit result reflecting Helia's operational performance and financial resilience.

"Underlying NPAT is lower than the very strong prior corresponding period (pcp), primarily due to a lower benefit from negative total incurred claims, with claims experience unusually low in both FY23 and 1H24. This strong profitability and underlying capital strength has enabled us to continue the delivery of active and appropriate capital management for shareholders.

"New business volumes remain soft, driven by low levels of high loan to value ratio (LVR) mortgage lending, the impact of the Federal Government's First Home Guarantee scheme and higher levels of

[1] The financial result of Helia and its subsidiary companies (the Group) is prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), consistent with International Financial Reporting Standards (IFRS).

[2] Underlying NPAT excludes the after-tax impacts of impairments of equity-accounted investees, unrealised gains/(losses) on shareholder funds, and foreign exchange rates on Helia's investment portfolio. The bulk of the foreign exchange exposures are hedged.

lender self-insurance. As part of our refreshed strategy, we are intensifying our focus on growing and defending our LMI market share, whilst working with a range of stakeholders to grow the market for LMI.

"Helia remains focussed on our core purpose of accelerating financial wellbeing through home ownership, now and for the future and executing our vision of being the unparalleled leader in LMI."

Operating environment

The resilience of the Australian labour market continues to be a key positive for the Company. The unemployment rate remains very low despite rising 20 basis points in 1H24 to 4.1% and the participation rate is just below all-time highs. Hours worked have increased modestly and positive real annual wage growth is assisting loan serviceability.

National dwelling values rose 3.7% in 1H24 and are at record levels. Dwelling values have risen in most geographies, including Western Australia and Queensland which have historically had higher levels of portfolio negative equity.

Whilst the RBA's cash rate target was stable at 4.35% in 1H24, the level of mortgage interest rates, together with cost of living pressures are contributing to a modest increase in industry mortgage arrears. In its most recent meeting the RBA noted that the economic outlook remains uncertain, and that recent data demonstrated that the process of returning inflation to target has been slow and bumpy. Helia is well positioned to manage any economic uncertainty that should arise.

Strategy

In 1H24 the Company refined its vision to be the unparalleled leader in LMI. This is underpinned by Helia's strategic objectives to:

- Grow and defend our LMI market share;
- Grow the market for LMI;
- Drive operational agility and risk maturity; and
- Deliver results through world-class performance.

During the half, the Company successfully renewed 1 contract with a top ten lender and welcomed the opportunity to participate in the Commonwealth Bank of Australia's request for proposal for external LMI. Helia is continuing to work with lenders on opportunities to expand risk appetite, including opening up investor lending to a 95% LVR and removing previous underwriting restrictions in some high-density postcodes.

The Company is proud to have helped over 12,000 families with home ownership in 1H24, continuing the pivotal role that Helia has played in the Australian property market since 1965. Work on repositioning LMI with home buyers, brokers and lenders, and reinforcing the importance of a viable LMI market to government and regulators is ongoing. The Company recently received an award for support service from the Mortgage and Finance Association of Australia, recognition of the work done to date.

Helia continues to deliver operational efficiencies, balancing medium and longer term investment needs with a challenging short term environment for new business.

Following a significant improvement in engagement and culture scores in FY23, the Company was recently awarded the Top Insurance Employer for 2024 from Insurance Business Magazine.

Capital management

In recognition of the strong 1H24 profitability and capital position of Helia, the Board today has approved an increased fully franked interim ordinary dividend of 15.0 cents per share.

During 1H24, the Company completed $42 million in on-market share buy-backs, reducing the share count by 3.7%. The current $100 million on-market share buy-back (of which $92 million is outstanding), expires on 31 December 2024. Helia reserves the right to vary, suspend or terminate the buy-back at any time and there is no guarantee that the Company will purchase any or all of the shares up to that amount.

1H24 Overview

1H24 key financial measures	1H23	1H24	1H24 v 1H23 (%)
Gross written premium (GWP) ($m)	96.6	85.9	(11)
Insurance revenue ($m)	219.8	194.8	(11)
Total incurred claims ratio (%)[3]	(18.6)	(5.1)	N.M.[4]
Insurance service result ($m)	194.8	141.2	(28)
Net investment return per annum (%)	4.2	2.9	(130) bps
Net financial result ($m)	36.7	16.7	(55)
Contractual service margin balance (CSM) ($m)	657.4	636.2	(3)
Closing delinquencies (number)	4,616	5,229	13
Delinquency rate (%)	0.51	0.63	12 bps
PCA coverage ratio (times)[5]	1.96	2.08[6]	12 bps

Gross Written Premium

GWP was down 11% and continued to be impacted by the low level of industry new housing loans written above an 80% LVR, the Federal Government First Home Guarantee scheme and higher levels of lender self-insurance.

[3] Calculated as Total incurred claims divided by Total insurance revenue.

[4] N.M. Not Meaningful (increases / decreases > 100%).

[5] Based on APRA prudential standards applicable from 1 July 2023.

[6] Pro-forma PCA coverage ratio of 1.91 times (allowing for payment of 1H24 dividends and completion of $100 million on-market share buy-back of which $92 million is outstanding).

Insurance revenue

Insurance revenue was down 11% on pcp, reflecting the lower levels of GWP in recent years and less favourable premium experience variations on top-up premium credits.

Insurance service expense

Total incurred claims were negative $9.9 million[7] reflecting a substantial benefit from changes to liabilities for prior incurred claims of $45.6 million.

This benefit was caused by a reduction in the Liability for Incurred Claims (LIC), arising from stable delinquency cure rates, dwelling value appreciation, high levels of cancellations and property sales with no claim. There were also some changes to the reserving basis which contributed a benefit of $19.2 million.

New delinquencies rose 23% on pcp due to the impact of higher rates and cost of living pressures but remain below historical levels. Closing delinquencies rose 15% on FY23 due to higher new delinquencies which were partly offset by stable cure rates and the delinquency rate rose to 0.63%.

Insurance service result

The insurance service result of $141.2 million comprised an expected insurance service result of $82.5 million, a lower net expense from reinsurance contracts and positive experience variations of $58.7 million mainly relating to positive claims experience.

Net financial result

The net financial result was down 55% on pcp, mainly due to a lower net investment return of 2.9% per annum which included unrealised losses on the bond portfolio as a result of rising interest rates. Interest and dividend/distribution revenue was higher than pcp and the closing net running yield on the investment portfolio at 1H24 was 4.7% per annum.

The impact of changing interest rates on the value of the insurance liabilities was $7.2 million, partly offsetting the impact of higher bond rates on net investment revenue.

Financial assets

Total cash and financial assets of $2.8 billion were down 6% on FY23, reflecting the payment of dividends and the on-market share buy-backs. Asset allocation and average duration were largely unchanged from FY23.

Insurance contract liabilities

Insurance contract liabilities were down 6% on FY23 levels, mainly due to a lower Liability for Remaining Coverage (LRC) as a result of the runoff of the back book exceeding new business.

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[7] Total incurred claims for 1H24 were negative, driven by a release of reserves.

The LRC includes a Contractual Service Margin (CSM), which represents $636.2 million of expected profit from the existing in-force business that will be recognised in the Income Statement in future periods if experience is in line with reserving assumptions. The CSM was down on FY23, as the CSM recognised in 1H24 Income Statement exceeded the CSM added by new business, offset to some extent by an increase in CSM due to positive changes in estimates.

Regulatory capital

Helia's PCA coverage ratio was up 22 basis points on FY23 to 2.08 times on a Group (Level 2) basis. 1H24 capital returns exceeded Statutory NPAT, but this was more than offset by capital released from in-force seasoning and runoff which significantly exceeded the capital required for new business.

Helia is committed to deploying capital at attractive returns for shareholders and it is the Board's objective to return to and then operate within the target range of 1.40 to 1.60 times PCA.

The Company targets a stable fully franked ordinary dividend and will explore options to return excess capital in an efficient and effective manner through a combination of special dividends and share buy-backs. The payment of the interim ordinary dividend and completion of the remaining on-market share buy-back of $92 million are expected to reduce the pro forma PCA coverage ratio to 1.91 times.

Outlook and FY24 guidance

FY24 Insurance revenue is expected to be within a range of $375 million to $415 million.

Over the course of 2H24, total incurred claims are expected to increase, but remain well below Helia's expectations of a through the cycle total incurred claims ratio of approximately 30%.

The annual ordinary dividend for FY24 is expected to be at a level similar to FY23, reflecting the Board's preference for stable ordinary dividends.

For more information, analysts, investors and other interested parties should contact:

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Briefing details

A conference call and webcast will commence at 10:15am (Sydney time) on Tuesday, 20 August 2024 to discuss these results.

Registration

Analysts, institutional investors, and media are encouraged to pre-register using one of the options below. Participants using the webcast will be in listen only mode.

Conference call: https://register.vevent.com/register/BIa4d8a7b9aec84402929e5bda729783d6

Webcast: https://edge.media-server.com/mmc/p/2suk9ndd

Replay

A replay of the webcast will be available on the Helia website within 24 hours.

https://investor.helia.com.au/Investor-Centre/?page=overview

The release of this announcement was authorised by the Board.