AASB 17 – Investor Briefing

1 December 2022

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Helia Group Limited ABN 72 154 890 730.

Agenda

Overview

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Pauline Blight-Johnston

Chief Executive Officer and Managing Director

New reporting but no change to underlying business economics

What is AASB 17?

AASB 17 Insurance Contracts is a new accounting standard that replaces AASB 1023 General Insurance Contracts

What does it do?

AASB 17 establishes principles for recognition, measurement, presentation and disclosure of insurance contracts

What will change?

Revenue and expense recognition will impact the timing of profit and magnitude of retained earnings

How does it affect Helia?

Reported financial results expected to be less volatile and reported ROE expected to be higher

Recap – 3Q22 market update

Premium revenue	Claims incurred	Investment portfolio	Strategic momentum
FY22 NEP guidance top of expected range of \$375m to \$435m	Continue to be very low	Investment income impacted by movements in bond rates	Strategic partnership with Household Capital
NEP remains high due to 2020-2021 GWP and policy cancellations	May take some time for changes in the economy to flow through to delinquencies	Most impact occurred in 1H22	CBA contract finalised
GWP down reflecting lower industry volumes of high LVR lending	FY22 net incurred claims guidance range of -\$25m to +\$25m	Higher bond rates expected to benefit ongoing interest income	Rebrand to Helia Group Limited

AASB 17

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Michael Cant

Chief Financial Officer

Key AASB 17 impacts

Balance Sheet

- Liability for Remaining Coverage (LRC) replaces Unearned Premium Liability (UPL)
- LRC includes an explicit allowance for future profits on existing policies, known as the Contractual Service Margin (CSM)
- Increase in opening liabilities due to inclusion of CSM in LRC. Expected to reduce net assets by $180m to $300m[1]

Income Statement

- Insurance Revenue replaces Earned Premium
- Insurance Revenue includes CSM release
- Expected pattern of revenue recognition slightly later
- Cancellations impact revenue over time
- Reduced volatility from movements in interest rates

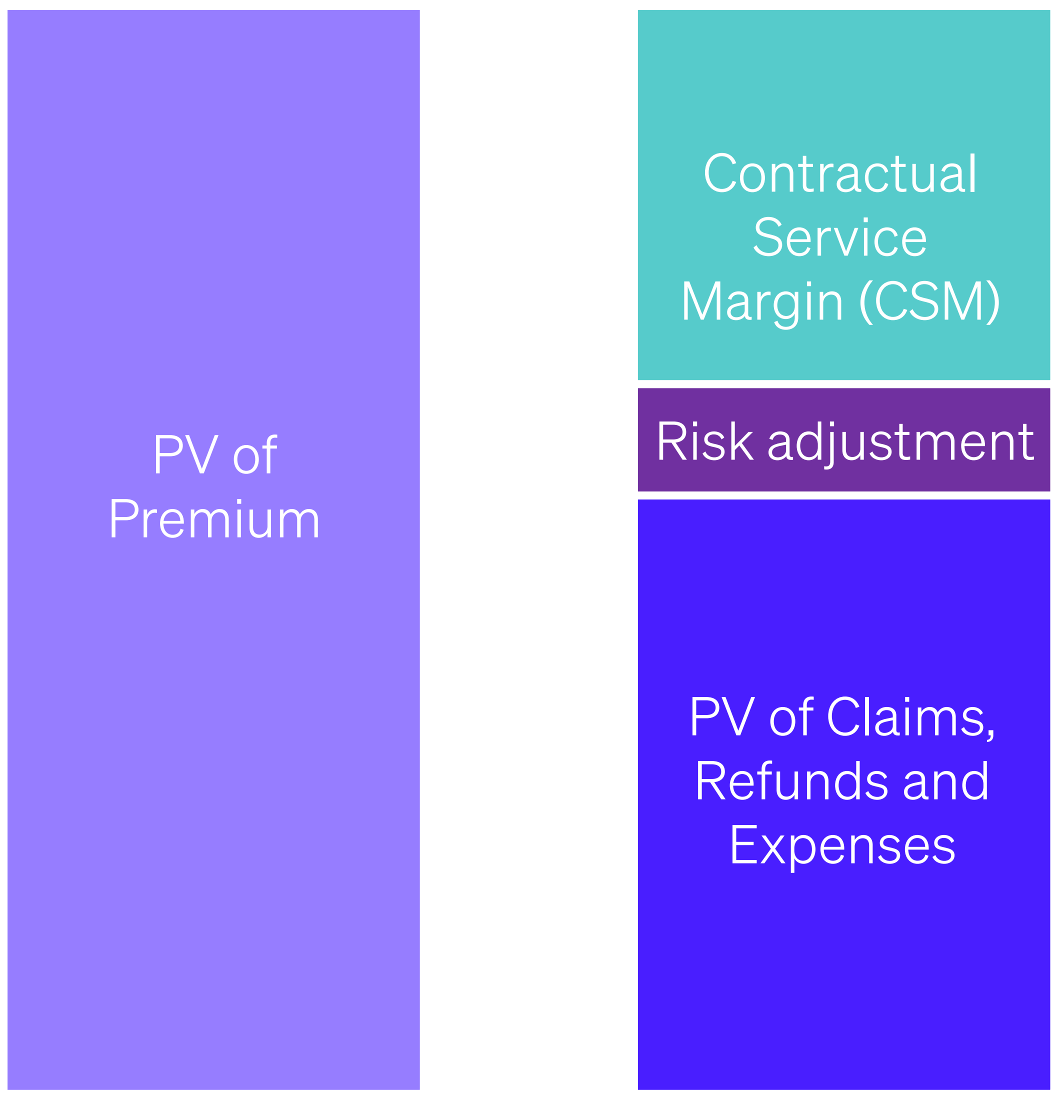
Regulatory Capital

- APRA is updating regulatory capital requirements to align with new accounting measures
- Draft rules effectively introduce new requirement that 120% of net assets plus Tier 2 Capital must exceed the PCA
- No change to capital requirements or aggregate capital base expected on transition
- PCA coverage ratio unchanged

1. Final net asset impact on transition will depend on 2022 performance, and is also subject to finalisation of AASB 17 accounting policies.

Key AASB 17 components – Contractual Service Margin

CSM on New Business



CSM movement[1]

- Accounting approach similar to Life Insurance Margin on Services (MoS), which recognises planned profit in line with services provided
- CSM is determined at inception for each group of policies, with future profit to be recognised over the contract life
- Starting CSM represents expected PV profit over the life of a cohort and a portion of the CSM balance is recognised each period with experience adjustments
- New business replenishes the CSM and does not provide a large initial contribution to the current year profit

1. This diagram is included for illustrative purposes only and so is not necessarily to scale.

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Source: Helia Group Limited.

AASB 1023 vs AASB 17 Balance Sheet

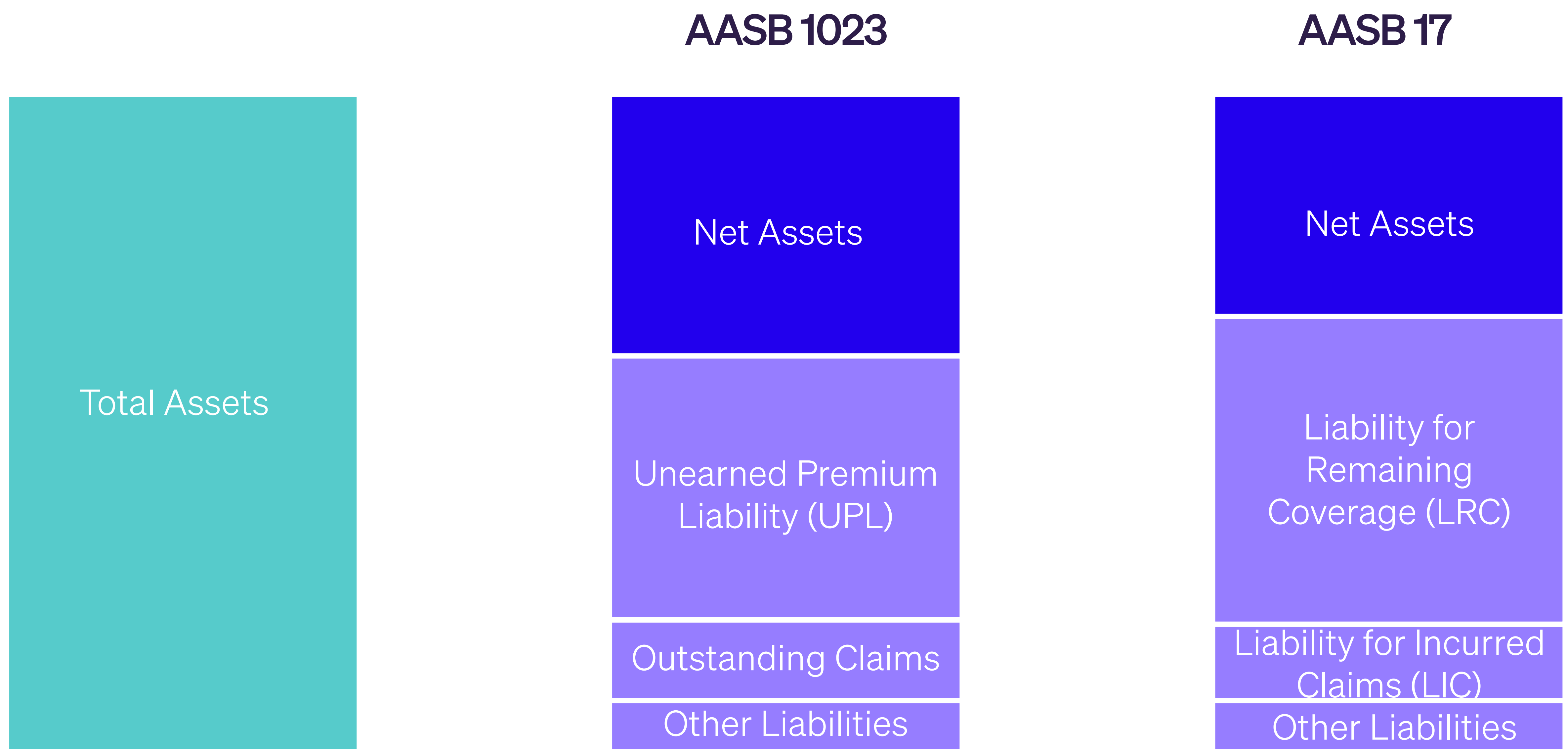
AASB 1023	AASB 17
Financial Assets	Financial Assets
Deferred Acquisition Costs (DAC)	
Deferred Tax Asset (DTA)	Deferred Tax Asset (DTA)
Total Assets	**Total Assets**
Outstanding Claims Liability	Liability for Incurred Claims
Unearned Premium Liability	Liability for Remaining Coverage
Other Liabilities	Other Liabilities
Total Liabilities	**Total Liabilities**
Net Assets	**Net Assets**
Total Equity	**Total Equity**

No separate DAC asset – implicit in Liability for Remaining Coverage (LRC)

Outstanding Claims Liability is now Liability for Incurred Claims (LIC) and is discounted

Unearned Premium Liability (UPL) is replaced by the Liability for Remaining Coverage (LRC), which includes an amortised Contractual Service Margin (CSM)

AASB 1023 vs AASB 17 Balance Sheet – conceptual changes



- Treatment of assets largely unchanged but with presentational changes to DAC
- Treatment of outstanding claims largely unchanged (except LIC is discounted)
- Significant change in treatment of liabilities for future contract periods (LRC):
  - AASB 1023 – historic cost approach to Unearned Premium Liability
  - AASB 17 – PV of future cash flows and forward looking explicit margin for future profit
- Deferred Tax Asset (DTA) represents timing difference between liabilities for tax and accounting purposes. DTA will change in response to accounting liabilities

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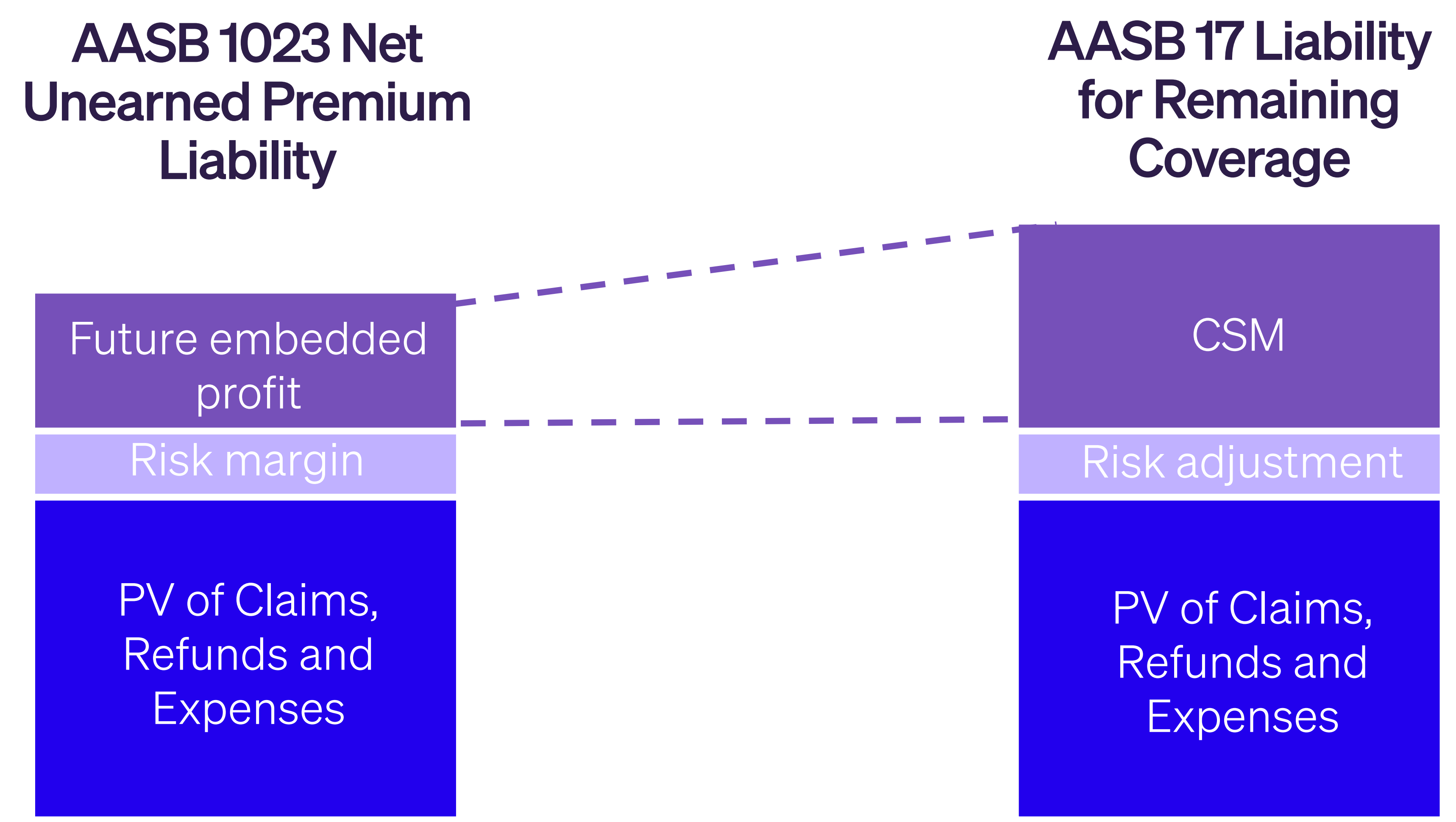
Source: Helia Group Limited.

Key AASB 17 components – Liability for Remaining Coverage



- LRC is discounted and comprised of:
  - value of future claims costs, expenses, refunds
  - risk adjustment which allows for uncertainty
  - an allowance for future profits (CSM)
- UPL has an historic cost-based allowance for future embedded profit whereas CSM is a forward-looking estimate and is calculated retrospectively on transition
- AASB 17 has higher CSM than what is implicit in AASB 1023 UPL due to the different (later) shape of revenue recognition
- LRC larger than UPL (net of DAC) as effectively $180m to $300m[1] of retained profits are transferred to liabilities

1. Final net asset impact on transition will depend on 2022 performance, and is also subject to finalisation of AASB 17 accounting policies.

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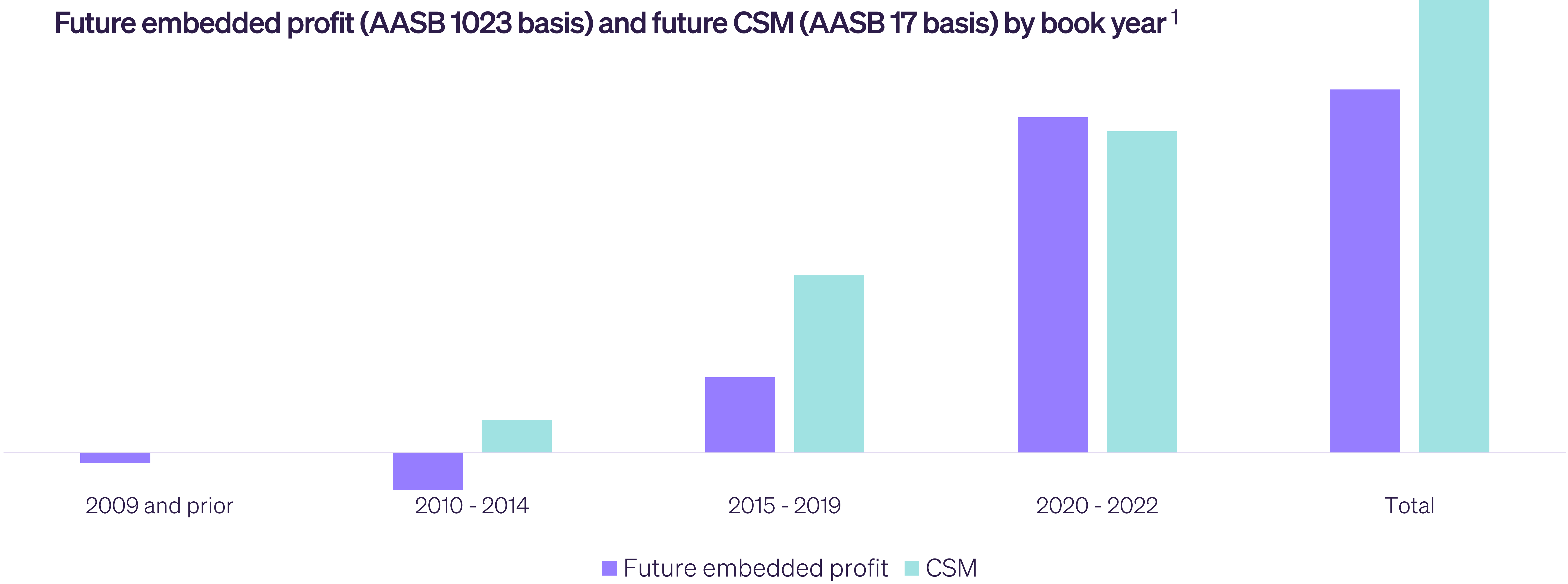
Source: Helia Group Limited.

Future profit (CSM) by cohort is explicit in AASB 17



- Recent years should have the largest "stock" of unrecognised CSM
- Recent book years (2015 and later) are much more profitable than earlier cohorts
- Liability for old cohorts (pre 2014) has been increased under AASB 17 – new onerous test for each cohort
- The difference in CSM and UPL future embedded profit is equivalent to the opening liability adjustment
- Significant CSM to be released in future year Income Statements

1. Indicative.

Source: Helia Group Limited.

AASB 1023 vs AASB 17 Income Statement

AASB 1023	AASB 17
Earned premium	Insurance revenue
Net claims incurred Other underwriting expenses Acquisition costs	Insurance service expense
Underwriting result	Insurance service result
	Insurance finance expense
Investment income	Investment income
Financing costs	Other financing costs
Profit before tax	Profit before tax
Income tax expense	Income tax expense
Net profit after tax	Net profit after tax

Net earned premium replaced by insurance revenue, which comprises:

- an allowance for expected claims incurred; expenses; and amortization of acquisition costs
- amortisation of CSM (profit component)

Insurance service expense comprises:

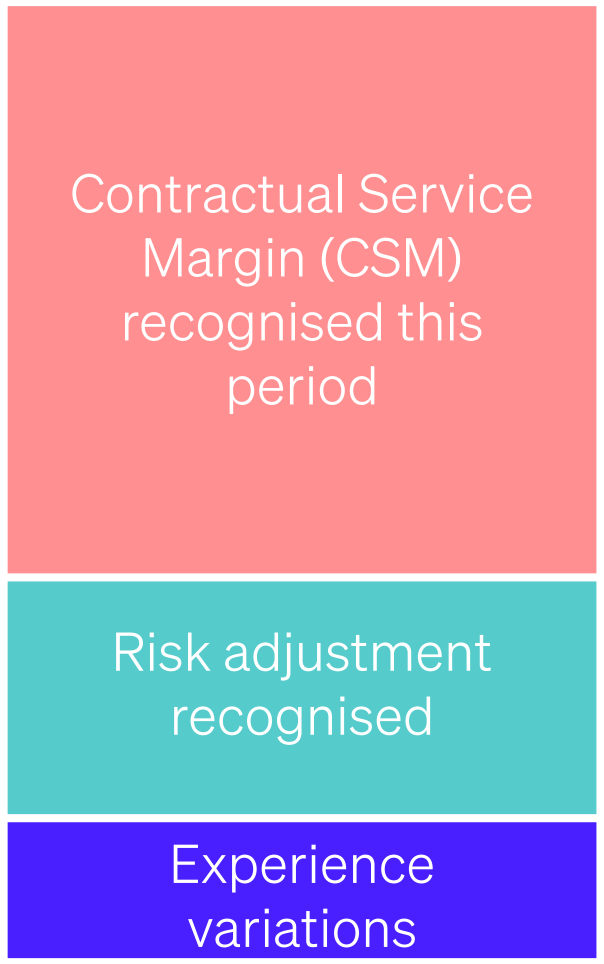
- actual claims incurred
- changes to liabilities for prior incurred claims
- expenses
- amortisation of acquisition costs

The impact of:

- unwind of discount rate and
- any change in discount rate

Key AASB 17 profit components - Insurance Service Result

Insurance service result [1]

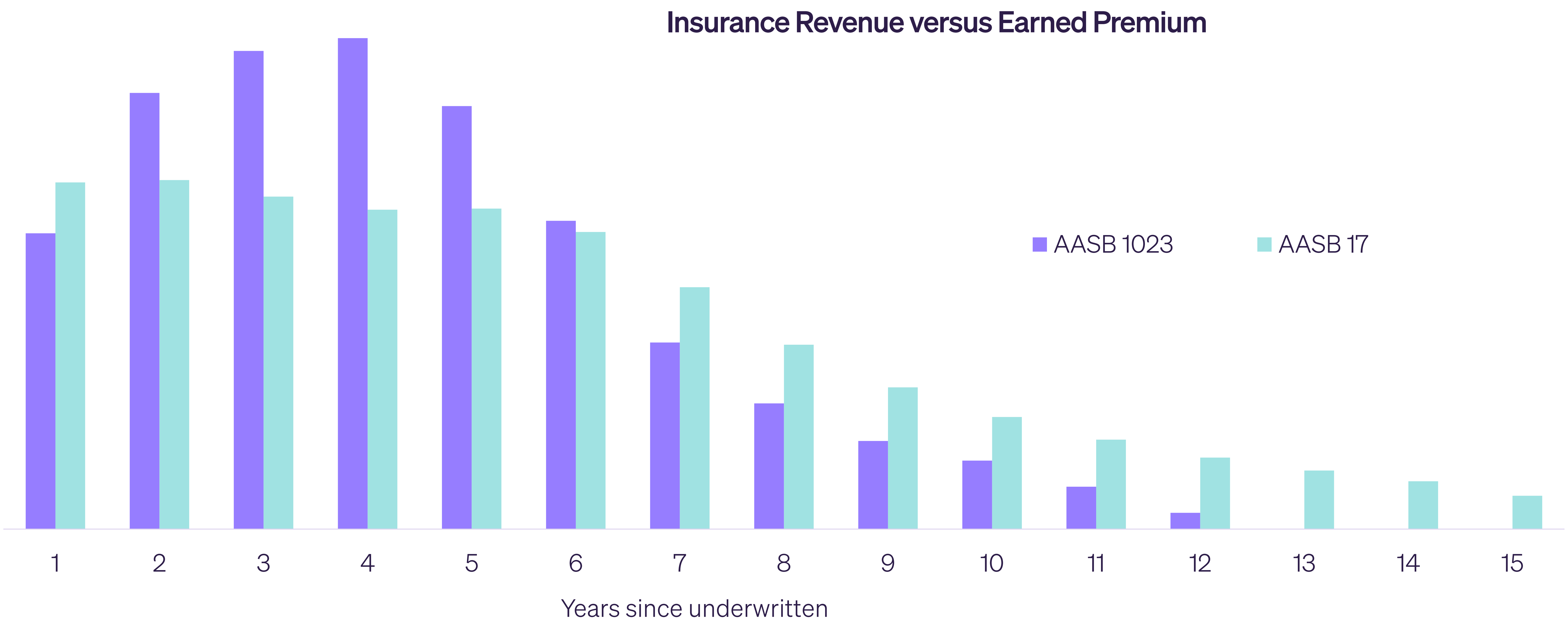


- CSM release (and release of risk adjustment) is a material component of profit over time
- Experience variations represent difference between actual and expected experience:
  - current year incurred claims
  - reserves for prior period claims
  - expenses
  - onerous contracts – i.e. groups of contracts that are expected to be loss making in the future, any change in the PV of the expected shortfall is immediately recognised in the Income Statement

1. This diagram is included for illustrative purposes only and so is not necessarily to scale.

Source: Helia Group Limited.

AASB 1023 vs AASB 17 timing of Insurance Revenue recognition



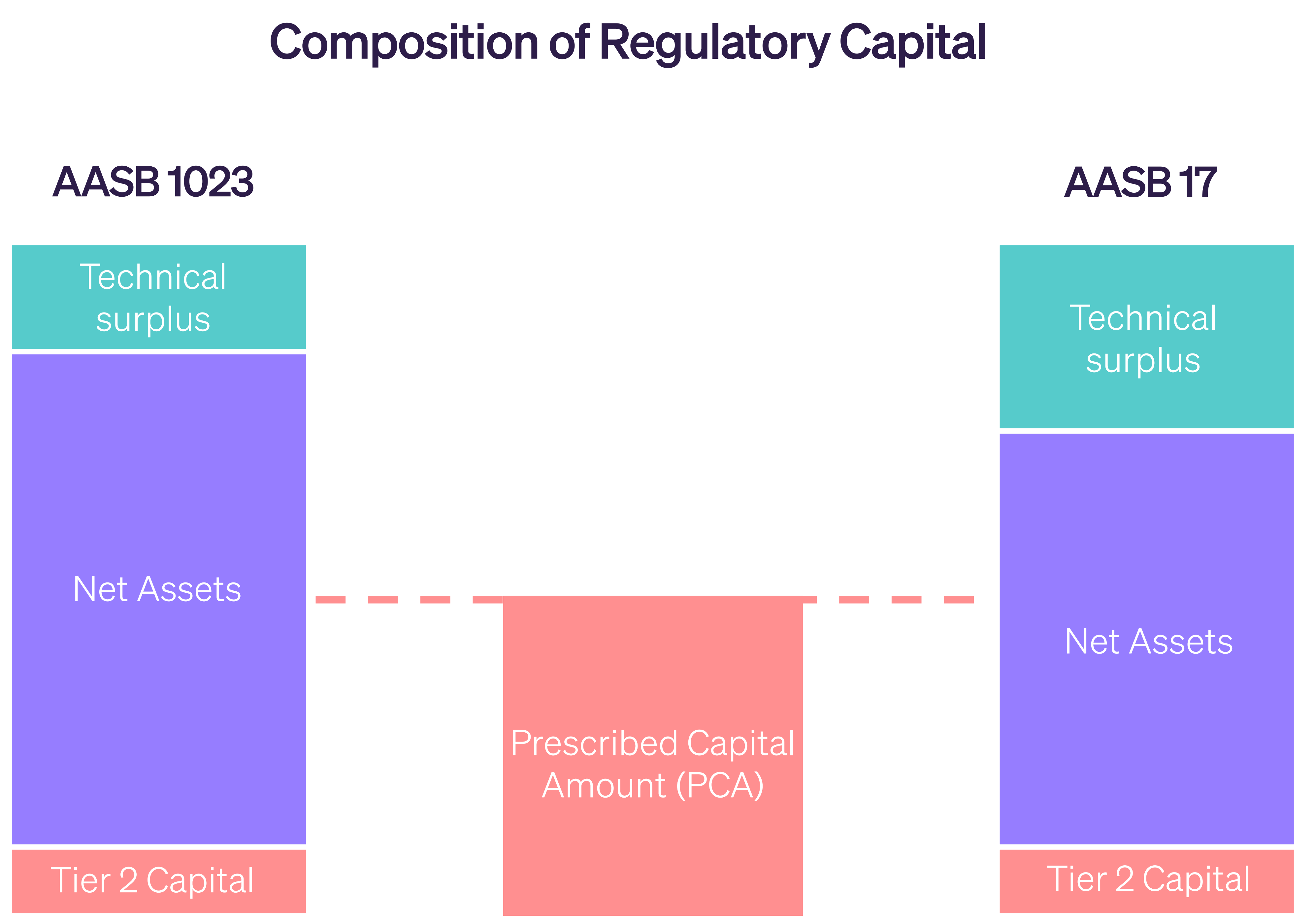
- AASB 1023 profile largely dependent on earnings curve, reflecting the incidence of risk for the whole portfolio
- AASB 17 profile reflects:
  - expected emergence of fulfilment cash flows (claims and expenses)
  - a component of the CSM reflecting the insurance services provided
- Insurance revenue is recognised slightly later and more uniformly over the active life of a policy

Source: Helia Group Limited.

Reduced volatility from movements in interest rates

AASB 1023	AASB 17
• Investment assets are marked-to-market with unrealised gains or losses recognised in the income statement • Balance sheet liabilities are not discounted • As a result, interest rate movements cause volatility in reported statutory results	• Impact of changing interest rates on the value of insurance liabilities forms part of the insurance finance expense • The accounting result reflects the economic matching of technical fund assets and policyholder liabilities • Some volatility remains due to movements in shareholder fund assets which are in excess of accounting liabilities

Capital requirements expected to be largely unchanged



- APRA is currently updating capital standards to align with new accounting measures
- The aggregate "capital base" (as measured by APRA) is not changing, but the split between net assets and technical surplus will change
- Draft rules effectively introduce new requirement that 120% of net assets plus Tier 2 Capital must exceed the PCA
- Negligible impact on capital requirements on transition

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Source: Helia Group Limited.

Summary of AASB 17 impacts and timeline

Balance Sheet

- Liability for Remaining Coverage (LRC) reflects explicit allowance for future unearned profit on existing policies
- LRC expected to be higher than UPL due to greater allowance for future profits
- Combined effect will reduce net assets by $180m to $300m[1] on transition

Income Statement

- Timing of revenue recognition is different (later)
- Incurred claims expense similar to current treatment
- Cancellations impact revenue over time
- Interest rate changes cause less volatility in the Income Statement

Regulatory Capital

- APRA is updating regulatory capital requirements to align with new accounting measures
- No change to capital requirements or aggregate capital base expected on transition
- Split between net assets and technical surplus will change

1 January 2023	24 February 2023	2Q23	August 2023
AASB 17 comes into effect	FY22 results on current, AASB 1023 basis	Pro forma AASB 17 Income Statement and Balance Sheet for FY22	1H23 results on AASB 17 basis

1. Final net asset impact on transition will depend on 2022 performance, and is also subject to finalisation of AASB 17 accounting policies.

Closing comments

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Pauline Blight-Johnston

Chief Executive Officer and Managing Director

New reporting but no change to underlying business economics

Financial Results & Returns

- Lifetime profits unchanged
- NPAT of similar magnitude and less volatile
- Net Assets expected to be lower than AASB 1023 basis
- Return on equity expected to be higher and WACC remains unchanged

Capital Management Reaffirmed

- Ordinary sustainable full year dividend of 24 cps with some scope for growth
- Board target PCA ratio of 1.4 to 1.6x unchanged
- Surplus capital unchanged and intent to return to Board targeted range unchanged

Glossary

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Glossary

AASB 17	Australian Accounting Standards Board AASB 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.
AASB 1023	Australian Accounting Standard Board AASB 1023 *General Insurance Contracts*.
CSM (Contractual Service Margin)	The unearned profit component of the insurance contract liability presented in the balance sheet and recognised in the income statement as a company provides services under insurance contracts.
DAC (Deferred Acquisition Cost)	Costs associated with obtaining and recording mortgage insurance contracts which are capitalised when they relate to the acquisition of new business or renewals.
DTA (Deferred Tax Asset)	A DTA is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.
Embedded profit	The difference between UPL net of deferred acquisition and reinsurance expense, and the carrying value of the Premiums Liability reported to APRA.
Expected insurance service expense	The insurer's prospective view of the cost of claims and expenses that they expect to incur in the reporting period.
Experience variations	The difference between expected claims/expenses and actual claims/expenses.
Fulfilment cash flows	Estimates of amounts that the insurer expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts.
Group of Insurance Contracts	Insurance contracts that are subject to similar risks and managed together, segregated by underwriting periods no longer than 12 months (book year) and onerousness status.
GWP (Gross Written Premium)	Sum of both direct premiums written and assumed premiums written, before deducting ceded reinsurance.
Insurance finance expense	Comprises the change in the carrying amount of the group of insurance contracts arising from the effect of discount rates and the effect of any change in discount rates.
Insurance revenue	The amount of revenue depicted in profit or loss to reflect the provision of coverage and other services arising from a group of insurance contracts that reflects the consideration to which the entity expects to be entitled in exchange for those services.
Insurance service expense	The portion of the overall profit or loss or other comprehensive income reported in the statement of financial performance that arises from incurred claims as well as losses or reversals of losses on onerous contracts.
Insurance service result	Revenue and insurance service expenses arising from a group of insurance contracts, comprising incurred claims and other incurred insurance service expenses.
LIC (Liability for Incurred Claims)	Insurer's obligation to pay amounts related to services provided.
LRC (Liability for Remaining Coverage)	Insurer's obligation to provide insurance contract services and includes CSM.
NEP (Net Earned Premium)	The earned premium for a given period less any outward reinsurance expense.
Onerous contracts	If a group of contracts has exhausted its CSM (because movements in the value of future claims, expenses and risk adjustment exceeds the remaining CSM), that group becomes onerous and the shortfall (or reversal of any previous shortfall) is immediately recognised in the Income Statement.
PCA (Prescribed Capital Amount)	Prescribed capital amount is an APRA formula (set out in Prudential Standard GPS 110) designed to ensure an insurer has adequate capital against risk.
PV	Present value of fulfilment cash flows, discounted in accordance with the standard.
Risk Adjustment	The compensation an entity requires for bearing the uncertainty about the amount and timing of future cash flows arising from non-financial risk as the entity fulfils insurance contracts.
ROE (Return on Equity)	A measure of financial performance calculated by dividing net profit after tax by shareholders' equity.
Shareholder fund	The cash and investments in excess of the Technical fund.
Technical fund	The investments held to support insurance liabilities.
Technical surplus	Referred to by APRA as 'Net surplus relating to insurance liabilities'.
UPL (Unearned Premium Liability)	The portion of the policy premium that has not yet been "earned" by the insurance company because the policy still has some time before it expires.
WACC (Weighted Average Cost of Capital)	Represents firm's average after-tax cost of capital from all sources, including common stock, bonds, and other forms of debt. WACC is the average rate that a company expects to pay to finance its assets.

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

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The release of this announcement was authorised by the Board.

1 December 2022