Helia

ASX Announcement

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2023 Full Year Results

27 February 2024: Helia Group Limited (Helia or the Company) (ASX:HLI) today reported its financial results for the year ended 31 December 2023 (FY23).[1]

The Company reported a statutory net profit after tax (NPAT) of $275.1 million and Underlying NPAT of $247.7 million. Statutory NPAT was higher than Underlying NPAT mainly as a result of pre-tax unrealised mark to market investment gains in the shareholder funds.

The Helia Board has declared a fully franked final ordinary dividend of 15.0 cents per share and an unfranked special dividend of 30.0 cents per share, both payable on 22 March 2024 to shareholders registered as at 8 March 2024.

FY23 highlights	FY22	FY23	FY23 v FY22 (%)
Statutory net profit after tax (NPAT) ($m)	201.2	275.1	37
Statutory diluted earnings per share (cps)	52.6	84.7	61
Underlying net profit after tax ($m)[2]	232.6	247.7	7
Underlying diluted earnings per share (cps)	60.8	76.3	26
Ordinary dividend per share (cps)	26.0	29.0	12
Special dividend per share (cps)	27.0	30.0	11
Net tangible assets per share ($)	3.44	3.76	9
Underlying return on equity (ROE) (%)	18.4	21.1	274bps

Helia Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston, said "I am pleased to deliver another strong full year result that reflects Helia's operational performance and financial resilience. Underlying NPAT is higher than the strong prior corresponding period (pcp), reflecting the combination of a low claims environment and higher net investment revenue. We are also pleased to continue our delivery of active and appropriate capital management for our shareholders.

"New business volumes remain soft, driven by the continuation of low levels of high loan to value ratio (LVR) mortgage lending. This has been exacerbated by the impact of the Federal Government's First

[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). All comparatives have been restated to reflect the adoption of AASB 17 where required.

[2] Underlying NPAT excludes the after-tax impacts of Genworth Financial, Inc. (GFI) separation costs in FY22, impairments of equity-accounted investees, unrealised gains/(losses) on shareholder funds, and foreign exchange rates on Helia's investment portfolio. The bulk of these foreign exchange exposures are hedged.

Home Guarantee scheme. To mitigate against the impacts of reduced industry wide lending, we continue to focus on improving broker and borrower LMI education, strengthening our existing lender relationships and attracting new exclusive lender contracts.

“Helia remains focussed on our core purpose of accelerating financial wellbeing through home ownership, now and for the future and we are working tirelessly on our vision to be the leading partner of choice for flexible home ownership solutions.”

Operating environment

The resilience of the Australian labour market was a key positive in FY23, with the unemployment rate remaining very low despite rising 40 basis points on the prior corresponding period to 3.9%. The participation rate remains near all-time highs, but hours worked have reduced modestly reflecting a gradual easing of conditions in the labour market.

National dwelling values hit a record high rising 8.1% over the course of FY23, a full reversal from the 7.5% fall after the previous cycle peak. The recovery has been broad based and has resulted in substantial positive equity in most geographies, providing a helpful buffer for homeowners.

The RBA increased its cash rate target by a cumulative 125 basis points during FY23, much of which was in the first half. Despite rising interest rates there have only been modest increases in industry mortgage arrears to date. In its December meeting the RBA left the cash rate target unchanged at 4.35%, noting that the impact of rate rises will continue to flow through the economy in the period ahead.

Progress on strategy

In FY23 Helia achieved a further improvement in its Net Promoter Score (NPS) to +79, a strongly positive score and the fourth consecutive annual improvement. The Company was successful in winning Great Southern Bank as a new exclusive customer and successfully renewed 4 contracts with existing lenders.

Further progress was made on new product delivery with the release of a Small to Medium Enterprise (SME) LMI product in 2H23, complementing the existing Monthly LMI, Family Assistance and SMSF LMI products.

The combination of rising dwelling values and higher interest rates have continued to make it challenging for prospective home buyers to save for a deposit. LMI plays an important role in helping home buyers get into the market earlier. Helia continues to work on improving broker and consumer education to broaden market awareness of LMI through case studies, a deposit estimator, infographics and videos.

Over the last few years Helia has made some small minority equity investments in businesses offering alternative home ownership financing solutions. In FY23 Household Capital (in which Helia has a 26.1% ownership interest) continued to grow its position in the reverse mortgage market, but OSQO (a fintech start-up in which Helia has a 25.1% ownership interest) was placed into administration in 2H23 resulting in a full equity write-down of $3.6 million.

Capital management

In recognition of the strong FY23 profitability and capital position of the Company, the Board today has approved an increase in the fully franked FY23 final dividend to 15.0 cents per share and an unfranked special dividend of 30.0 cents per share, resulting in total FY23 dividends of 59.0 cents per share.

During FY23, Helia completed $156 million in on-market share buy-backs, reducing the share count by 13.4%. The existing $100 million on-market share buy-back (of which $44 million is outstanding) has been extended to 30 April 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.

FY23 Overview

FY23 key financial measures	FY22	FY23	FY23 v FY22 (%)
New insurance written (NIW) ($b)	20.0	13.0	(35)
Gross written premium (GWP) ($m)	319.9	185.2	(42)
Insurance revenue ($m)	467.7	427.3	(9)
Total incurred claims ratio (%)[3]	(0.4)	(15.7)	N.M.[4]
Insurance service result ($m)	300.8	358.4	19
Net financial result ($m)	17.9	81.5	N.M.[4]
Contractual service margin balance (CSM) ($m)	665.9	669.2	1
Closing delinquencies (number)	4,569	4,532	(1)
Delinquency rate (%)	0.47	0.52	5bps
PCA coverage ratio (times) [5]	2.21	1.86[6]	(35)bps

New business

Top line NIW and GWP fell 35% and 42% respectively on the prior corresponding period and continue to be impacted by the low level of industry new housing loan commitments, especially for loans above an 80% loan to value ratio (LVR). The Federal Government First Home Guarantee is also having a noticeable impact on the LMI industry.

In addition to the above industry factors, the proportion of CBA high LVR loans insured by Helia reduced over the course of FY23 and averaged ~60%. This reduction is expected to continue in FY24 towards the lower end of the contractual 50-70% range.

[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 1.67 times (allowing for payment of FY23 dividends and completion of the extended $100 million on-market share buy-back of which $44 million is outstanding).

Insurance revenue

Insurance revenue was down 9% on the prior corresponding period, reflecting the lower levels of GWP in recent years. New premium is recognised as revenue over the life of a policy, with revenue in any particular period being a function of GWP volumes over a longer timeframe.

Insurance service expense

Total incurred claims were negative $67.2 million.[7] Incurred claims from the current period were up 7% on the prior corresponding period to $64.6 million, however there was a substantial benefit from changes to liabilities for prior incurred claims of $131.8 million.

This benefit was caused by a reduction in the Liability for Incurred Claims (LIC), arising from continued low levels of new and closing delinquencies as well as strong house prices, high cancellations and some changes to the reserving basis (of which the latter contributed approximately $38 million).

New delinquencies rose 2% on the prior corresponding period, but remain well below historical levels reflecting the economic environment. Closing delinquencies were flat on the prior corresponding period but the delinquency rate rose to 0.52% due to a lower number of policies in force.

Insurance service result

The insurance service result of $358.4m was up 19% on a strong prior corresponding period. The Expected insurance service result was $146.6 million, with $211.8 million of experience variations largely due to very favourable claims experience.

Net financial result

The net financial result of $81.5 million represents net investment revenue/(expense) less net insurance and reinsurance finance (expense)/income which incorporates the impact of interest rate movements on the value of the insurance contract liabilities.

Net investment revenue was $170.8 million, up sharply from the loss in the prior corresponding period which was negatively impacted by mark to market unrealised losses on the bond portfolio. Interest and dividend income were well up on the prior corresponding period and the closing net running yield on the investment portfolio at FY23 was 4.4%.

The impact of changing interest rates on the value of the insurance liabilities was negative $28.7 million, well down on the $119.6 million benefit in the prior corresponding period.

Financial assets

Total cash and financial assets were down 9% on the prior corresponding period reflecting the payment of dividends and the on-market share buy-back. The composition of the investment portfolio was changed to include a new global corporate bond mandate and the duration of the shareholder funds was extended to 2.4 years.

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[7] Total incurred claims for FY23 were negative, driven by a release of reserves.

Liability for remaining coverage

The Liability for remaining coverage (LRC) contains a component for future CSM, which represents the expected profit from the existing in-force business that will be released in the future. The Contractual Service Margin balance of $669.2 million was flat on the prior corresponding period, as the CSM recognised in the period has been offset by the CSM added by new business and changes in estimates.

Regulatory capital

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 targeted range of 1.40 to 1.60 times PCA over time. 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.

Helia's capital position at FY23 was 1.86 times PCA on a Group (Level 2) basis. The payment of the final ordinary and special dividends and completion of the extended on-market share buy-back of $44 million are expected to reduce the pro forma PCA coverage ratio to 1.67 times.

Outlook and FY24 guidance

FY24 Insurance revenue is expected to be within a range of $360 million to $440 million.

Total incurred claims ratio is expected to increase towards around 30%, which is representative of Helia's expectations through the cycle.

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 10:00am (Sydney time) on Tuesday, 27 February 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/BI79fcf3c229b34266b5d533b3d76af4cf

Webcast: https://edge.media-server.com/mmc/p/svvm89op

Replay

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

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

The release of this announcement was authorised by the Board.