AASB 17 pro forma historical financial statements

Investor briefing

25 May 2023

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The consolidated statement of comprehensive income and consolidated statement of financial position for the years ended 31 December 2022 and 2021 which have been provided for the purposes of this presentation (‘**Pro forma Financial Statements**’) reflect the retrospective application of AASB 17 Insurance Contracts, and consequently the amounts are different from previously published. For Information on adoption of AASB 17, refer to section 1 of the Pro forma Financial Statements.

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Helia Group Limited ABN 72 154 890 730 (**Helia**).

Agenda

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Overview

1

Pauline Blight-Johnston

Chief Executive Officer and Managing Director

AASB 17 pro forma

No change to underlying business economics

Financial results and returns

- Lifetime profits unchanged
- Not expected to materially change magnitude of average profit
- Profit expected to be less volatile
- Reduced net assets should lead to higher ROE (for same quantum of profit)
- FY23 opening net assets reduced by $215m

Capital

- Minimal change to current regulatory capital requirements or level of surplus capital
- Board targeted PCA coverage ratio of 1.4 to 1.6x unchanged

AASB 1023 & AASB 17 comparison

Michael Cant

Chief Financial Officer

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Key AASB 17 impacts

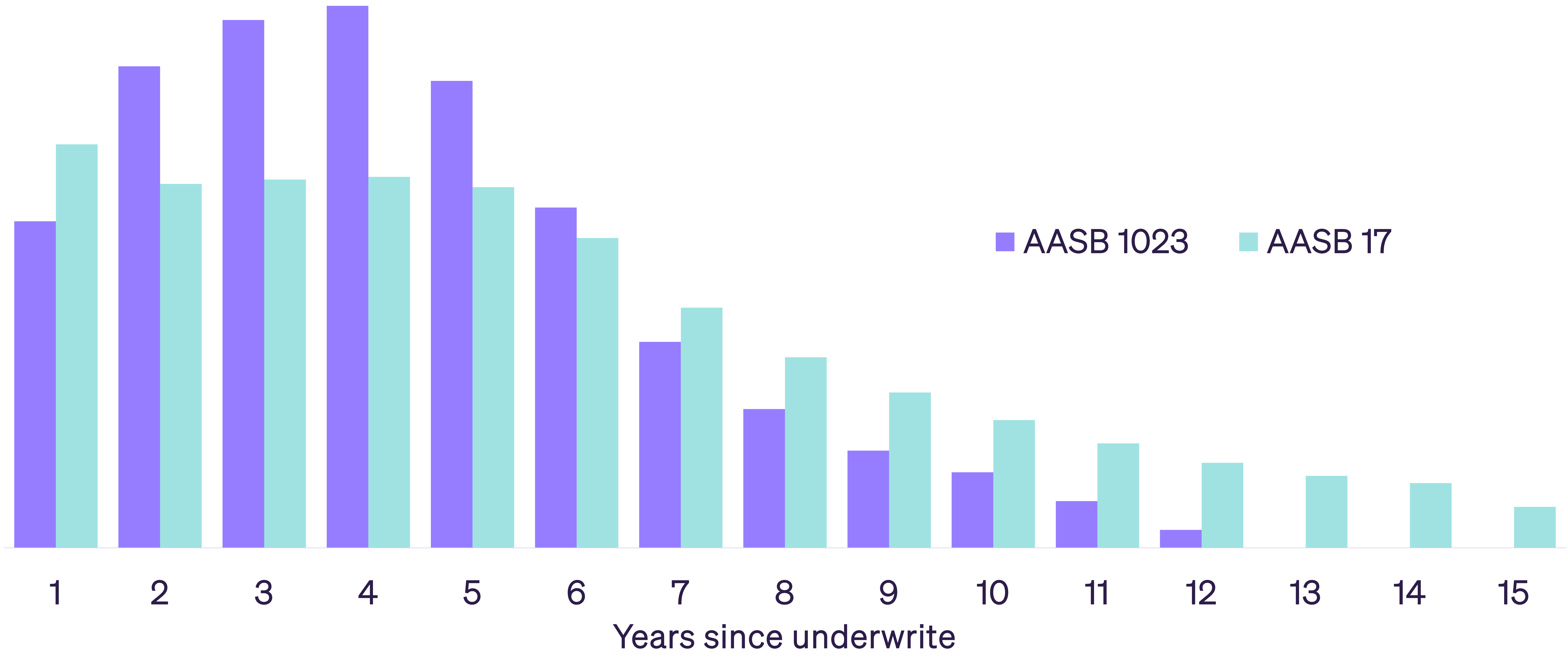
Balance Sheet

- AASB 1023 unearned premium liability (UPL) is replaced by AASB 17 liability for remaining coverage (LRC)
- LRC is greater than UPL due to two main factors:
    - different (later) timing of recognition of past revenue and profit recognition
    - the LRC on old cohorts with minimal remaining UPL
- LRC is a forward looking net present value (NPV) calculation reflecting expected future cash flows and risk adjustment. LRC also includes a sizeable contractual service margin (CSM) stock of future profits to be recognised in the Income Statement over the active policy life
- The increase in insurance liabilities results in net assets reducing by $215m, as at 31 December 2022

Income Statement

- AASB 17 insurance revenue replaces earned premium and reflects:
    - expected emergence of cash flows (claims and expenses) that have been reflected in the LRC
    - release of risk adjustment in the LRC
    - CSM recognised
- Impact of cancellations in the year is primarily on the CSM balance (future revenue) rather than current year revenue
- Assets and liabilities both revalued on prevailing interest rates. Reduced volatility from movements in interest rates due to matching of the investment portfolio with insurance contract liabilities

Profile of revenue recognition[1]



1. Indicative for new policies written during 2022.

FY22 Balance Sheet

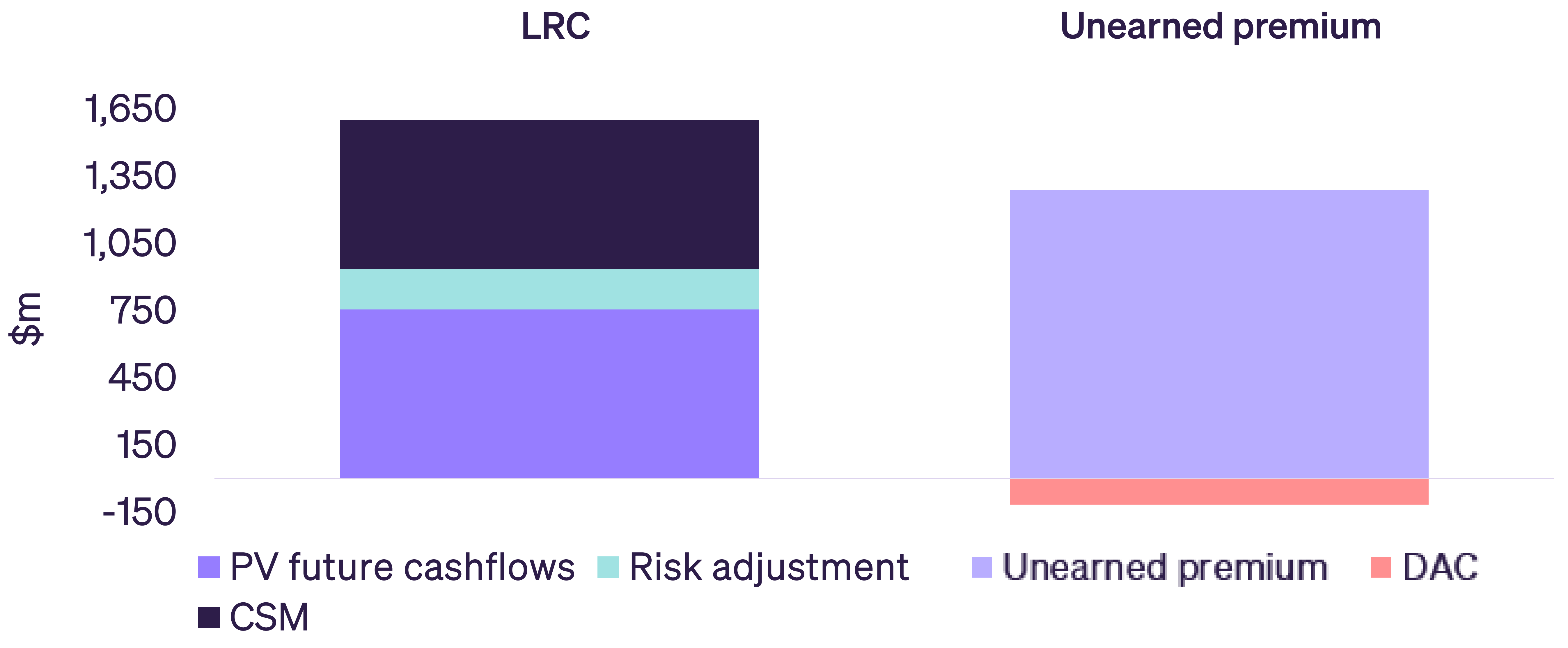
($ millions)	AASB 1023	AASB 17	
Assets			
Cash	23.8	23.8	Cash
Accrued investment income	21.8	21.8	Accrued investment income
Investments	3,240.0	3,240.0	Financial investments (including derivatives)
Recoveries receivable	20.3		
Deferred acquisition costs (DAC)	115.3		
Equity-accounted investees	27.4	27.4	Equity-accounted investees
Deferred tax assets (DTA)	32.4	124.7	Deferred tax assets (DTA)
Goodwill and intangibles	12.1	12.1	Goodwill and intangibles
Other assets[1]	28.0	11.2	Other assets[1]
Total assets	3,521.1	3,461.0	Total assets
Liabilities			
Payables[2]	84.9	73.0	Payables
Outstanding claims	415.8	386.7	Liability for incurred claims (LIC)
Unearned premium	1,403.5	1,599.9	Liability for remaining coverage (LRC)[3]
		1,986.6	Insurance and reinsurance contract liabilities
Interest bearing liabilities	188.7	188.7	Interest bearing liabilities
Employee benefits provision	7.1	7.1	Employee benefits provision
Total liabilities	2,099.9	2,255.3	Total liabilities
Net assets	1,421.1	1,205.7	Net assets

Note: Totals may not sum due to rounding.
1. Includes trade receivables, prepayments, plant and equipment and leased assets.
2. Includes reinsurance payables, lease liabilities and other payables.
3. Net of assets for insurance acquisition cash flows.

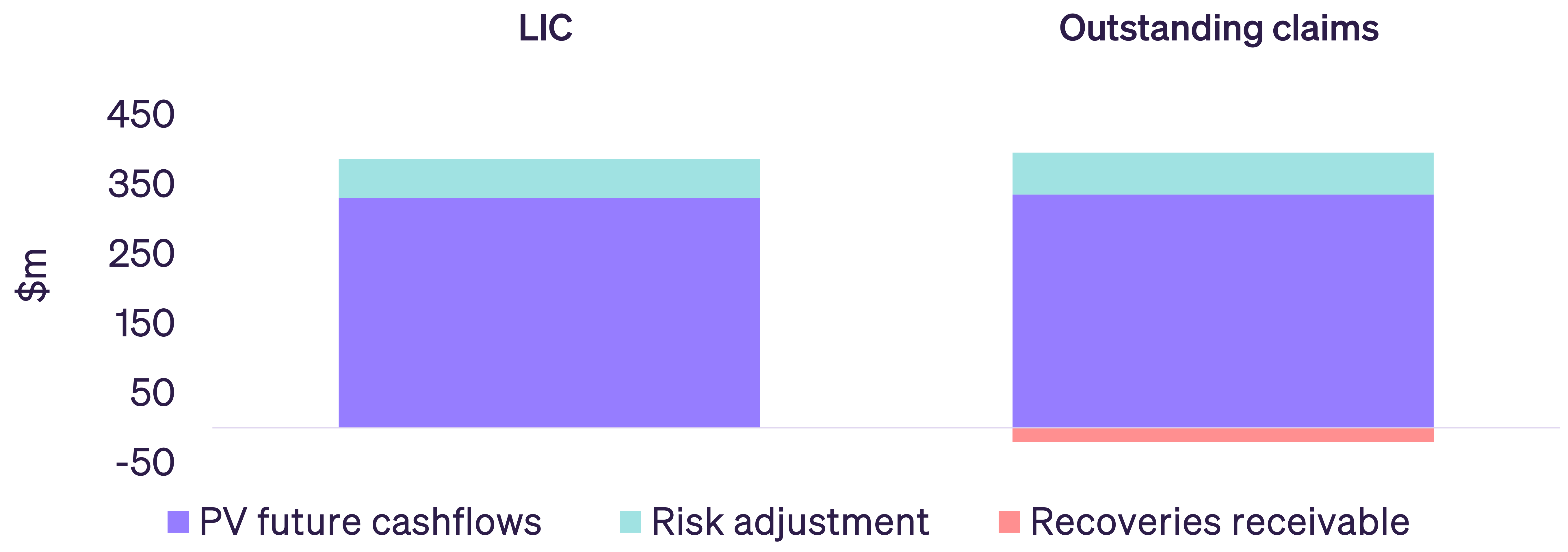
Movement commentary:

- No separate DAC asset under AASB 17
- Increase in DTA primarily reflects tax effect of opening adjustment to insurance contract liabilities
- Recoveries receivable now part of insurance contract liabilities (previously in other assets and payables)
- Outstanding claims liability and unearned premium reserve now replaced by insurance contract liabilities
- LIC is similar as OCL (net of recoveries receivable)
- LRC is materially higher than UPL less DAC
- Net assets reduced by $215m. Effectively timing differences in recognition of past profit

Insurance contract liabilities



- LRC $312m larger than UPL (net of DAC). This accounts for (after tax) nearly all the change in net assets
- LRC is greater than UPL due to:
  - different (later) timing of recognition of past revenue and profit recognition
  - the LRC on old cohorts with minimal remaining UPL
- AASB 17 CSM is higher than the level of expected future profits implicit in AASB 1023 UPL



- Treatment of outstanding claims largely unchanged. LIC is similar to OCL, inclusive of recoveries receivable
- LIC composition (reported delinquencies, IBNR, re-delinquencies) remains unchanged

FY22 Income Statement

($ millions)	AASB 1023	AASB 17	
Gross earned premium	488.3	466.6	Insurance revenue
Outwards reinsurance expense	(60.6)	(60.5)	Net expense from reinsurance contracts
Net earned premium	427.7		
Net claims (incurred)/written back	34.7	1.7	Total incurred claims
		4.3	Onerous contracts (losses) / reversals
Acquisition costs	(24.8)	(66.0)	Amoritisation of insurance acquisition cash flows
Other underwriting expenses[1]	(75.5)	(45.4)	Insurance expenses
		(105.3)	Insurance service expense
Underwriting result	362.1	300.8	**Insurance service result**
Net investment income	(84.5)	(84.5)	Net investment revenue / (loss)[2]
		102.4	Net finance income / (expense) from insurance and reinsurance contracts
		17.9	**Net financial result**
Financing costs	(12.4)	(12.6)	Financing costs
		(20.4)	Other operating expenses
Share of loss of equity-accounted investees, net of tax	(1.1)	(1.1)	Share of loss of equity-accounted investees, net of tax
Profit before income tax	264.0	284.6	**Profit before income tax**
Income tax expense	(77.3)	(83.4)	Income tax expense
Statutory net profit after tax	186.8	201.2	**Statutory net profit after tax**
Underlying net profit after tax	288.4	232.6	**Underlying net profit after tax**

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Note: Totals may not sum due to rounding.
1. Includes separation costs, net of other underwriting revenue.
2. Investment revenue net of investment expenses.

Movement commentary:

- Insurance revenue replaces gross earned premium. 2022 revenue for AASB 1023 was inflated by high cancellations, which are recognised over time under AASB 17
- Total incurred claims are low and would normally be much the same as AASB 1023. Difference for 2022 is primarily due to significant changes in discount rate which are included in the insurance finance expense under AASB 17
- There was a small reversal (write back) mainly relating to onerous contracts for pre-2014 book years
- Amortisation of acquisition costs is higher under AASB 17 as the DAC amortisation under AASB 1023 is still rebuilding after the 2020 write off
- Other underwriting expenses are split between insurance expenses and other operating expenses (corporate costs and some projects). Basis of expense allocation also different between the two standards
- AASB 17 statutory NPAT is 7.7% above AASB 1023 NPAT, but with large differences in individual components that will not always offset
- AASB 17 underlying NPAT removes FX and unrealised gains / losses on shareholders fund only, as well as separation costs

AASB 17 pro forma

FY22 Regulatory capital

($ millions)	AASB 1023	AASB 17
Capital base		
Common equity Tier 1 capital – net assets	1,421.1	1,205.7
Regulatory adjustments	(13.4)	(17.2)
Net surplus relating to insurance liabilities	297.9	509.9
Tier 2 capital	190.0	190.0
Regulatory capital base	1,895.7	1,888.4
Capital requirement		
Probable maximum loss (PML)	1,485.1	1,485.1
Net premiums liability deduction	(312.5)	(312.5)
Capital credit for reinsurance	(729.6)	(729.6)
Insurance concentration risk charge (ICRC)	442.9	442.9
Asset risk charge	233.7	233.7
Insurance risk charge	236.8	236.8
Operational risk charge	33.7	33.7
Aggregation benefit	(91.5)	(91.5)
Prescribed capital amount (PCA)	855.5	855.5
PCA coverage ratio (x)	2.22x	2.21x

Note: Totals may not sum due to rounding.

Movement commentary:

- Net assets reduced due to AASB 17 opening balance sheet adjustment
- Net surplus relating to insurance liabilities increase offsets net asset impact
- Regulatory capital base broadly unchanged
- PCA coverage ratio broadly unchanged

AASB 17 pro forma

AASB 17 pro forma financial statements (unaudited)

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Michael Cant

Chief Financial Officer

The Pro forma Financial Statements reflect the retrospective application of AASB 17 Insurance Contracts, and consequently the amounts are different from previously published. For Information on adoption of AASB 17, refer to section 1 of the Pro forma Financial Statements.

AASB 17 Income Statement

($ millions)	31 Dec 21	31 Dec 22	%
Insurance revenue	462.9	466.6	0.8
Insurance service expense	(70.9)	(105.3)	48.5
Net expense from reinsurance contracts	(68.0)	(60.5)	(11.0)
Insurance service result	**323.9**	**300.8**	**(7.1)**
Net investment revenue / (loss) [1]	(10.6)	(84.5)	N.M.
Net finance income / (expense) from insurance and reinsurance contracts	27.3	102.4	N.M.
Net financial result	**16.8**	**17.9**	**6.9**
Financing costs	(10.3)	(12.6)	22.3
Other operating expenses	(20.1)	(20.4)	(1.5)
Share of loss of equity-accounted investees, net of tax	-	(1.1)	N.M.
Profit before income tax	**310.2**	**284.6**	**(8.3)**
Income tax expense	(92.7)	(83.4)	(10.0)
Statutory net profit after tax	**217.5**	**201.2**	**(7.5)**
Underlying net profit after tax	**226.6**	**232.6**	**2.6%**

Note: Totals may not sum due to rounding.
1. Investment revenue net of investment expenses.

Movement commentary:

- Insurance revenue flat, but with some changes in composition
- Insurance service expense lower due to low total incurred claims and 2021 having a higher benefit from reversal of onerous contracts
- Investment revenue negative due to rising bond rates causing mark to market losses that were significantly higher in FY22
- Net finance expense is positive due to the change in discount rates, which was significantly larger in FY22
- Profit (both statutory and underlying) is strong and relatively steady for 2021 and 2022 (net of tax)

Insurance revenue

($ millions)	31 Dec 21	31 Dec 22
Expected insurance service expenses incurred	198.4	172.7
Premium experience variations	(24.6)	12.0
Risk adjustment recognised in revenue	59.0	51.5
CSM recognised in profit or loss	166.6	164.4
Share of premium for acquisition costs	63.6	66.0
Total insurance revenue	462.9	466.6

- Expected incurred represents the allowance in the premium for claims and non-acquisition expenses. This emerges as revenue via release of a part of the LRC
- Premium experience variations reflect differences in actual versus expected levels of refunds and premium credits (for top ups). Top ups and premium credits were particularly high in 2021
- Risk adjustment recognised in revenue reflects release of risk adjustment on the expected insurance expense incurred
- A portion of CSM on balance sheet is released as revenue each year in line with services provided over a 15-year period
- Acquisition costs are amortised over the effective life of the policy and are equally offset in insurance service expense

Insurance service expense

($ millions)	31 Dec 21	31 Dec 22
Incurred claims from current period	57.4	60.7
Changes to liabilities for prior incurred claims	(77.1)	(62.4)
Total incurred claims	**(19.7)**	**(1.7)**
Insurance expenses	44.2	45.4
Amoritisation of insurance acquisition cash flows	63.6	66.0
Onerous contract losses / (reversals)	(17.1)	(4.3)
Insurance service expense	**70.9**	**105.3**

($ millions unless otherwise stated)	31 Dec 21	31 Dec 22
Number of paid claims	524	360
Average net paid claim ($'000)	79.1	84.5
Net claims paid (including expenses)	41.4	30.4
Movement in LIC	(61.1)	(32.1)
Total incurred claims	(19.7)	(1.7)

- Current year claims incurred were light for both 2021 and 2022, reflecting low number of new delinquencies
- Both years had substantial benefit from changes to liabilities for prior incurred claims - reflecting very good experience on cures and ageing of delinquencies, together with house price appreciation
- Amortisation of insurance acquisition cash flows is equal to insurance revenue component
- Onerous contract reversals relate to pre-2014 cohorts. Reversals were higher in 2022 as the business reviewed future claims expectations following the COVID period
- Net claims paid (including claims handling expense) fell in 2022 reflecting low numbers of settlements
- Movement in LIC reflects lower numbers of new delinquencies, claims experience and changes in actuarial basis, and excludes the insurance finance expense component

Note: Totals may not sum due to rounding.

AASB 17 pro forma

Analysis of insurance services result

($ millions)	31 Dec 21	31 Dec 22
Contractual service margin recognised	166.6	164.4
Risk adjustment recognised in revenue	59.0	51.5
Net expense from reinsurance contracts	(68.0)	(60.5)
Incurred claims from current period[1]	96.7	68.1
Changes to liabilities for prior incurred claims	77.1	62.4
Other	-	(1.5)
Premium experience variations	(24.6)	12.0
Onerous contract (losses) / reversals	17.1	4.3
Experience variations	166.3	145.3
Insurance service result	**323.9**	**300.8**

- CSM recognised plus release of risk adjustment less reinsurance expense represents the "expected profit"
- Experience variations are the main driver of the variability of results and are comprised of:
    - incurred claims reflects the difference between actual and expected new incurred claims
    - changes to liabilities for prior incurred claims represents the difference between actual and expected experience on those policies that were in the opening LIC
    - premium experience variations reflects the difference between expected and actual refunds and credits
    - onerous contracts and reversals reflects movements in estimates for future claims on book years that are onerous

Note: Totals may not sum due to rounding.

1. Incurred claims reflects expected incurred claims of $128.8m at 31 Dec 2022 and $154.1m at 31 Dec 2021.

Net financial result

($ millions)	31 Dec 21	31 Dec 22
Investment revenue / (loss) on technical funds	(34.0)	(84.6)
Investment revenue / (loss) on shareholder funds	27.4	3.0
Investment expenses	(4.0)	(2.9)
Net investment revenue / (loss)	(10.6)	(84.5)

($ millions)	31 Dec 21	31 Dec 22
Interest accreted	(12.0)	(17.6)
Changes in interest rates	38.7	119.6
Insurance finance income / (expense)	26.7	102.1
Reinsurance finance income	0.6	0.3
Net insurance and reinsurance finance income / (expense)	27.3	102.4

($ millions)	31 Dec 21	31 Dec 22
Net financial result	16.8	17.9

- 2022 returns on technical funds (i.e., assets backing the insurance liabilities) was negative due to the impact of rising interest rates
- Insurance contract liabilities are calculated as the NPV of future cash flows, risk adjustment and CSM. The discount rates are based on a risk-free rate and illiquidity premium
- CSM discount rate is locked-in at the prevailing book year, whereas other components of the liabilities use the prevailing interest rates at end of the period
- Interest accretion represents the unwind of the discounting
- Change in interest rate component represents the impact of changing discount rates on insurance liabilities. Interest rates rose approximately 250bps over 2022, with a significant benefit to value of insurance liabilities
- Mark to market unrealised gains / (losses) on technical funds are largely offset by a change in interest rate used to discount insurance liabilities – reflecting the close matching in this portfolio

Balance Sheet

($ millions)	31 Dec 21	31 Dec 22
Assets		
Cash	76.7	23.8
Accrued investment income	16.8	21.8
Financial investments (including derivatives)	3,627.1	3,240.0
Equity-accounted investees	-	27.4
Deferred tax assets	139.5	124.7
Goodwill and intangibles	13.8	12.1
Other assets	15.3	11.2
Total assets	**3,889.3**	**3,461.0**
Liabilities		
Payables	83.8	73.0
Liability for remaining coverage[1]	1,845.3	1,599.9
Liability for incurred claims	437.2	386.7
Insurance and reinsurance contract liabilities	2,282.5	1,986.6
Interest bearing liabilities	188.2	188.7
Employee benefits provision	7.3	7.1
Total liabilities	**2,561.8**	**2,255.3**
Net assets	**1,327.5**	**1,205.7**

Movement commentary:

- Investments fall primary reflects unrealised investment losses, together with dividends and share buy-backs
- Equity-accounted investees include OSQO and Household Capital
- LRC down due to lower in-force volumes and higher discount rate
- LIC down driven by lower number of delinquencies and higher discount rate

Note: Totals may not sum due to rounding.
1. Net of assets for insurance acquisition cash flows.

Insurance and reinsurance contract liabilities

($ millions unless otherwise stated)	31 Dec 21	31 Dec 22
Present value (PV) claims, refunds and expenses	851.9	755.3
Risk adjustment	195.2	178.4
Contractual service margin (CSM)	783.3	665.9
Liability for remaining coverage (LRC)	**1,830.3**	**1,599.5**
Present value (PV) claims and expenses	373.7	330.6
Risk adjustment	63.4	56.0
Liability for incurred claims (LIC)	**437.2**	**386.7**
Assets for insurance acquisition cash flows	-	(10.6)
Insurance contract liabilities	2,267.5	1,975.6
Reinsurance contract liabilities	15.0	11.0
Total insurance and reinsurance contract liabilities	**2,282.5**	**1,986.6**

Remaining CSM to be recognised in Income Statement

($ millions)	31 Dec 21	31 Dec 22
Less than one year	159.1	138.0
One to two years	131.1	121.3
Two to three years	114.8	102.7
Three to four years	96.6	83.2
Four to five years	77.0	65.0
More than five years	204.7	155.7
Total	783.3	665.9

LRC:

- PV of claims, refunds and expenses reduced over the year, primarily due to declining in-force volumes
- CSM is down primarily due to lower new business volumes. Approx 20% of CSM balance is expected to be recognised in next 12 months
- Risk adjustment for the LRC is equivalent to 23% of the central estimate and is estimated at a confidence level providing at least a 75% probability of adequacy

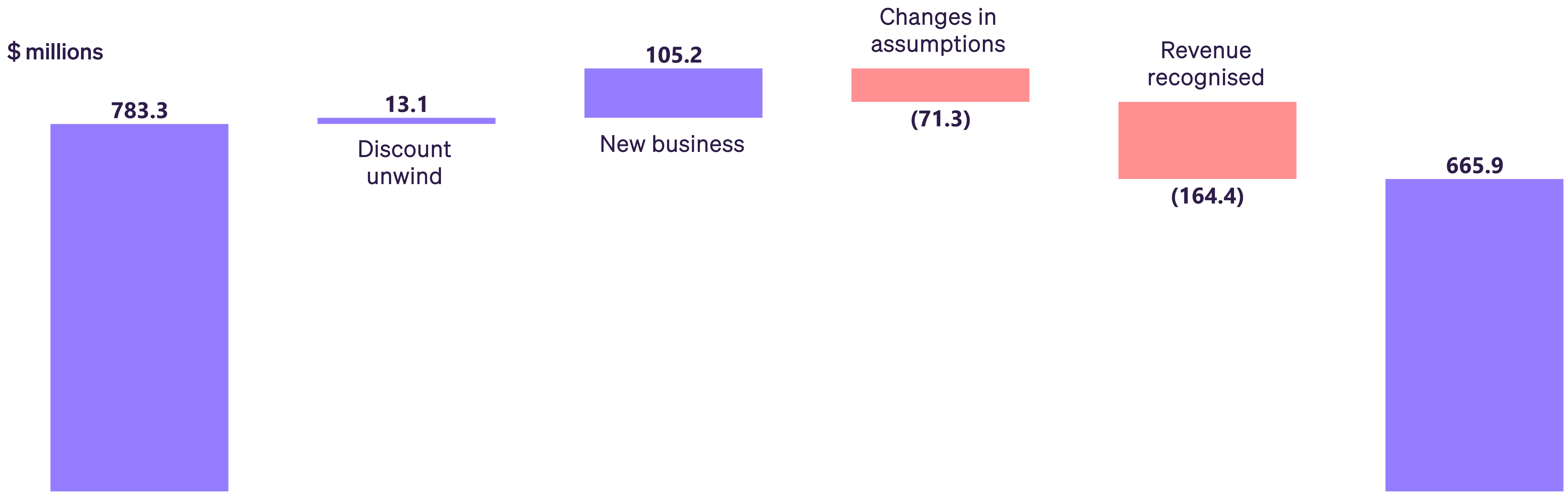
LIC:

- PV of claims and expenses reduced due to low delinquencies and a higher discount rate
- Risk adjustment for the LIC is equivalent to 17% of the central estimate and is estimated at a confidence level providing at least a 75% probability of adequacy

Reinsurance contract liabilities:

- Relate to reinsurance cover placed but not yet paid
- Assets for insurance acquisition cash flows relate to costs already paid in respect of future new business

Movement in CSM



- 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
- A portion of the CSM balance is recognised each period
- New business replenishes the CSM and does not provide a large initial contribution to the current year profit

AASB 17 pro forma

Key financial measures

Continuing

Income Statement
- Statutory NPAT

Balance Sheet
- NTA per share

Capital & returns
- PCA coverage ratio (x)
- ROE

Other
- Gross written premium (GWP)
- New insurance written (NIW)
- Closing delinquencies (number)
- Delinquency rate (%)

Changed

Income Statement
- **Underwriting result,** akin to insurance service result
- Loss ratio
  - Total incurred claims as a percentage of insurance revenue
- Underlying NPAT
  - Excludes FX and unrealised gains and losses on shareholders funds only, as well as separation costs

New

Income Statement
- Insurance revenue
- CSM release
- Experience variations

Balance Sheet
- CSM balance

No longer exists

Income Statement
- Net earned premium (NEP)
- Insurance profit

Key take-outs

- Timing of revenue recognition is different but lifetime profits unchanged
- FY23 opening net assets reduced by $215m
- The reduction in opening net assets is caused by higher opening liabilities on transition. In turn this reflects a later recognition of revenue and profit relating to past periods
- Not expected to materially change magnitude of average profit
- Profit expected to be less volatile
- Reduced net assets should lead to higher ROE (for same quantum of profit)
- Minimal change to current regulatory capital requirements or level of surplus capital

Appendix

4

Reconciliations

Trailing 12-month statutory ROE

($ millions)	Dec 21	Dec 22
Statutory NPAT	217.5	201.2
Average equity[1]	1,230.4	1,266.6
Statutory ROE (%)	**17.7%**	**15.9%**

Trailing 12-month underlying ROE

($ millions)	Dec 21	Dec 22
Underlying NPAT	226.6	232.6
Average equity[1]	1,230.4	1,266.6
Underlying ROE (%)	**18.4%**	**18.4%**

Statutory NPAT to underlying NPAT

($ millions)	FY21	FY22
Statutory NPAT	217.5	201.2
Unrealised (gains) / losses on shareholders' funds and FX	4.5	40.0
Separation costs	8.4	4.8
Adjustment for tax (expense) / credits	(3.9)	(13.5)
Underlying net profit / (loss) after tax	**226.6**	**232.6**

Note: Totals may not sum due to rounding.
1. For the purposes of calculating ROE and underlying ROE, equity is defined as the average equity between the start and the end of the relevant 12-month period.

AASB 17 pro forma

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 Standards 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 costs)	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 assets)	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.
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.
GWP (gross written premium)	Sum of both direct premiums written and assumed premiums written, before deducting ceded reinsurance.
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.
NTA (net tangible assets) per share	Net tangible assets (net assets less goodwill and other intangible assets) divided by the number of shares on issue, at the end of the period.
NIW (new insurance written)	New insurance written reflects the total loan amount that is insured in the relevant period. NIW for Helia reporting purposes excludes excess of loss business written.
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.
Outstanding claims liability (OCL)	Outstanding claims liabilities. It represents the present value of the estimated claim cost of delinquencies at the end of the period plus claims management costs. It includes the costs of delinquencies incurred but not yet reported to the Group and a risk margin intended to achieve a 75% probability of adequacy.
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 average equity.
Shareholder funds	The cash and investments in excess of the Technical funds.
Technical funds	The investments held to support 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.

Investor materials can be found at:

Helia.com.au

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The release of this announcement was authorised by the Board.

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