Helia

ASX Announcement

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Full Year 2022 Results

24 February 2023: Helia Group Limited (Helia or the Company) (ASX:HLI) today reported its financial results for the year ended 31 December 2022 (FY22).[1]

The Company reported a Statutory net profit after tax (NPAT) of $186.8 million. Underlying NPAT[2] was $288.4 million, which included an underwriting result of $362.1 million. Statutory NPAT was materially lower than Underlying NPAT as a result of pre-tax unrealised mark to market investment losses of $140.3 million due to rising bond rates.

The Helia Board has declared a fully franked final dividend of 14.0 cents per share and a fully franked special dividend of 27.0 cents per share, both payable on 24 March 2023 to shareholders registered as at 10 March 2023.

FY22 highlights	FY21	FY22	FY21 v FY22 (%)
Statutory net profit after tax (NPAT) ($m)	192.8	186.8	(3.1)
Statutory diluted earnings per share (cps)	46.7	48.9	4.7
Underlying net profit after tax ($m)	237.8	288.4	21.3
Underlying diluted earnings per share (cps)	57.6	75.6	30.9
Ordinary dividend per share (cps)	17.0	26.0	52.9
Special dividend per share (cps)	12.0	27.0	N.M. [3]
Net Tangible Assets Per Share ($)	3.75	4.06	8.3
Underlying return on equity (ROE) (%)	16.3	18.7	240bps

Helia Chief Executive Officer and Managing Director, Ms. Pauline Blight-Johnston, said "We are pleased to be delivering another strong financial performance combined with ongoing capital management for our shareholders.

"Underlying NPAT was well up on the prior period, driven by a strong underwriting result due to a low claims environment and high Net Earned Premium (NEP). Gross Written Premium (GWP) was down significantly reflecting industry loan volumes. Despite this fall in GWP, NEP was higher than the prior

[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 Genworth Financial, Inc. (GFI) transition costs, the after-tax impact of unrealised gains/(losses) on the investment portfolio, and the impact of foreign exchange rates on Helia's investment portfolio. The bulk of these foreign exchange exposures are hedged.

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

period as it benefitted from strong GWP in prior years and higher levels of policy cancellations. Investment returns for the full year were negative due to the impact of unrealised losses from rising bond yields, primarily in 1H22. Bond yields stabilised in 2H22 and higher running yields are positive for future profitability.

"Helia remains well-positioned to support Australians throughout their home ownership journey and we continue to work with our customers to find new ways to help Australians accelerate financial wellbeing through home ownership."

Operating Environment

During FY22 the Reserve Bank of Australia increased its cash rate target to 3.10%, a rise of 300 basis points. This in turn led to higher mortgage interest rates for borrowers and contributed to a national fall in dwelling values of 5.3%[4].

As at 31 December 2022, combined capital and regional dwelling values were 8.6% and 6.6% below their April and June 2022 peaks respectively[4]. Despite these falls in house prices, portfolio negative equity was below pre-pandemic levels at 1.6%[5].

While inflation and higher interest rates have increased cost of living pressures, the labour market has remained strong. As 31 December 2022, employment growth was slowing, but the unemployment rate remained very low at 3.5%, participation rates remained near all-time highs and wages growth was increasing. These conditions benefitted closing delinquencies which fell 22% in FY22 to 4,569, the lowest level since the Company's listing in 2014.

Progress on strategy

The separation from Genworth Financial, Inc. (GFI) was completed on time and ahead of budget and the Company assumed its new identity as Helia in 2H22. In addition to this important programme of work, the Company made strong progress on its strategic agenda in FY22:

- Helia retained all existing customers, including contract renewals for customers accounting for 73% of GWP. Customer net promoter scores also improved further to +77.
- Further steps were taken to modernise the core technology suite including the implementation of a new underwriting system.
- Helia also continued its product innovation by releasing a new Self-Managed Superannuation Fund (SMSF) offering in December 2022.
- The Company announced a new strategic partnership and investment in Household Capital in 2H22, adding to its existing investments in Tic:Toc and OSQO.

[4] CoreLogic Hedonic Home Value Index as at 31 December 2022.
[5] Calculated with reference to estimated house valuations using automated valuation amount data provided by CoreLogic and estimated outstanding loan balances using scheduled loan repayments on a 30 year P&I amortising loan.

Capital Management and Buy-Back

In FY22 Helia returned $143 million of capital to shareholders via dividends and bought back $181 million of shares through an on-market share buy-back, reducing the number of shares on issue by 15.6%.

Despite an active programme of capital management, strong profitability and high levels of cancellations have contributed to a 19 basis point rise in the Prescribed Capital Amount (PCA) coverage ratio to 2.22 times as at 31 December 2022, above the Board's target range of 1.4 – 1.6 times PCA.

In recognition of the strong capital position, the Board has today approved:

- A fully franked final ordinary dividend of 14.0 cents per share and a fully franked special dividend of 27.0 cents per share, resulting in total FY22 dividends of 53.0 cents per share.

- A further on-market share buy-back for shares up to a maximum aggregate value of $100 million, commencing in March 2023.

Based on Helia's closing share price of $2.80 on 23 February 2023, the buy-back would represent a reduction of 10.3% of the Company's issued share capital or around 35.7 million shares. The total number of shares to be purchased under the buy-back will depend on business and market conditions, the prevailing share price, market volumes and other considerations. Helia will not buy back more than 30,008,215 of its ordinary shares without seeking shareholder approval.

The Company reserves the right to vary, suspend or terminate the buy-back at any time and there is no guarantee that Helia will purchase any or all of the shares referred to above.

Transition to AASB 17

Helia will be adopting AASB 17 Insurance Contracts (AASB 17) from the 2023 annual reporting period (FY23) in accordance with Australian accounting standards. AASB 17 replaces the previous standard AASB 1023 General Insurance Contracts.

On adoption of the new standard on 1 January 2023, Helia is recognising an opening balance sheet adjustment to retained earnings which is expected to be in the range of $210 million to $270 million, compared to the previously advised range of $180 million to $300 million.

AASB 17 will require changes to revenue and expense recognition in the reported financial results, which will impact the timing of profit and magnitude of retained earnings. The Company expects the reported financial results to be of a similar magnitude but less volatile and the return on equity to be higher compared to financial results under AASB 1023.

Helia expects to provide pro forma AASB 17 FY22 financials for analysts and investors in advance of the 1H23 financial result.

FY22 Overview

FY22 key financial measures	FY21	FY22	FY22 v FY21 (%)
New insurance written (NIW) ($b)	30.2	20.0	(33.8)
Gross written premium (GWP) ($m)	549.6	319.9	(41.8)
Net earned premium (NEP) ($m)	370.5	427.7	15.4
Underwriting result ($m)	295.8	362.1	22.4
Loss ratio (%)	(2.2)	(8.1)	N.M.
Insurance profit ($m)	261.8	277.5	6.0
Closing delinquencies (number)	5,826	4,569	(21.6)
Delinquency rate (%)	0.52	0.47	(5bps)
PCA coverage ratio (times)[6]	2.03	2.22	19bps

NIW and GWP lower, but NEP remained strong

The 34% fall in NIW was largely driven by lower industry new loan commitments, particularly for high Loan to Value Ratio (LVR) lending, including to First Home Buyers. GWP fell by 42% primarily due to lower NIW, a change in business mix with a lower share of loans written at LVRs above 90% and price reductions for some renewed contracts.

Despite the fall in GWP there was a 15% increase in NEP, reflecting strong new business growth in 2020 and 2021 and a continuation of high levels of cancellations from refinancing. These cancellations brought forward the recognition of approximately $72 million of additional premium revenue compared to FY21 (and $133 million compared to FY20).

Low claims environment continues

Net claims incurred were negative $35 million[7], equating to a loss ratio of (8.1%) and within the previously advised range of negative $25 million to negative $40 million.

New delinquencies fell 19% and remain well below recent historical levels, reflecting a resilience in borrower finances from savings accumulated during the pandemic and a strong labour market. These conditions contributed to a 22% fall in closing delinquencies and a 5 basis point improvement in the delinquency rate to 0.47%.

Claims reserves included a net release of $10 million reflecting positive experience in claims frequency and severity and lower assumptions for IBNR claims.

[6] Pro forma PCA coverage ratio of 1.93 times (allowing for payment of FY22 dividends and completion of $100 million on-market share buy-back).

[7] Net claims incurred for FY22 were negative, driven by a release of reserves.

Investment markets drive unrealised losses and higher running yields

Net investment income was a loss of $85 million. Unrealised losses from rising bond rates of $162 million in 1H22 were partially offset by unrealised gains of $22 million in 2H22. Net interest and dividend income was up 55% as rising cash and bond rates improved the running yield on cash and investments by 330 basis points to 4.3% as at 31 December 2022.

Capital above targeted range

Helia's capital position as at 31 December 2022 was 2.22 times PCA on a Group (Level 2) basis. The payment of the announced dividends and completion of the announced on-market share buy-back are expected to reduce the pro forma PCA coverage ratio to 1.93 times.

Subject to regulatory and shareholder approvals, Helia will continue to explore options to return excess capital efficiently to shareholders through a stable ordinary dividend with scope for growth, share buy-backs and special dividends.

The PCA ratio is currently above the Board's target range of 1.4 to 1.6 times PCA. It is the Board's objective to operate within the target PCA range over time and currently expects the PCA ratio to be within the target range by the end of 2024 (following the payment of declared dividends).

Outlook and FY23 guidance

Australian economic growth is expected to moderate, with unemployment forecast to increase over the course of FY23. Inflationary pressures remain and interest rates are anticipated to increase further, likely peaking in FY23. This in turn is expected to see further drops in dwelling values in most markets over the course of FY23.

GWP growth is expected to remain subdued, reflecting soft industry new loan commitments and the impact of the Federal Government First Home Guarantee Scheme. NEP will be driven by previous book year GWP as well as the level of cancellations, which remains elevated.

Net claims incurred for FY23 are expected to increase toward long term average levels in response to higher interest rates, falling dwelling values, and expected modest increases in unemployment.

Net interest and dividend income is expected to continue to benefit from higher reinvestment rates.

2023 AGM

Helia advises that, in accordance with ASX Listing Rule 3.13.1, its Annual General Meeting will be held on Thursday, 11 May 2023, and the closing date for the receipt of nominations from persons wishing to be considered for election as a director at that meeting is Monday, 6 March 2023. A Notice of Meeting will be lodged with ASX closer to the date.

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

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Briefing details

A conference call and webcast will be held at 10:30am (Sydney time) on Friday, 24 February 2023 to discuss these results.

Conference call

Conference name: Helia Group Limited Full Year 2022 Financial Results

To register for the conference call please visit:
https://register.vevent.com/register/BI33e5a6f0ec4347a681edff7d184cce86

Webcast

To pre-register please visit: https://edge.media-server.com/mmc/p/5ycsrg9i

Australia dial-in details

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+61 7 4800 3383 (toll)

International dial-in details

There are dial-in numbers for each country listed below. For countries not listed, the Australian participant toll number listed above can be dialled.

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China	+86 400 842 4982	Singapore	+65 800 321 1487
France	+33 805 22 05 00	Switzerland	+41 800 805 625
Germany	+49 1573 5997957	United Arab Emirates	+971 800 03111279
Hong Kong	+852 3001 1960	United Kingdom	+44 808 175 1536
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Replay

A replay of the webcast will be available on our website https://investor.helia.com.au/Investor-Centre/?page=overview within 24 hours.

The release of this announcement was authorised by the Board.