Level 26, 101 Miller Street
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NSW 2060 Australia

AASB 17 pro forma historical financials and trading update

25 May 2023: Helia Group Limited (Helia or the Company) (ASX:HLI) has adopted AASB 17 Insurance Contracts (AASB 17) which replaces AASB 1023 General Insurance Contracts (AASB 1023) for annual reporting periods from 2023 onwards, in accordance with Australian accounting standards.

Helia is providing pro forma FY22 AASB 17 historical financials with comparatives for analysts and investors as if AASB 17 had been applied. The pro forma historical financials have been externally reviewed but are not audited.

Under AASB 17 there has been an opening balance sheet reduction in Net Assets of $215 million as at 1 January 2023, towards the bottom end of the previously advised range of $210 million to $270 million.

The FY22 Statutory NPAT under AASB 17 was $201.2 million, compared to $186.8 million previously reported under AASB 1023, noting that there were large differences in individual components that can vary from year to year.

Lifetime profits for a cohort of business are the same regardless of accounting treatment. Accordingly, the introduction of AASB 17 is not expected to cause a material change in the magnitude of average reported profits. We do however expect profits under AASB 17 to be less volatile compared to the previous accounting standard. For the same quantum of profit, the reduction in net assets will translate to a higher ROE.

The introduction of AASB 17 has a negligible impact on the regulatory capital requirement at transition and the PCA ratio and surplus capital above the Board target range is largely unchanged.

Balance Sheet

AASB 17 changes include:

- Deferred Acquisition Costs (DAC) are no longer reported separately as an asset as they are implicit in insurance contract liabilities.
- Unearned Premium Liability (UPL) and Outstanding Claims Liability (OCL) are replaced by insurance contract liabilities, which includes a Liability for Remaining Coverage (LRC) and a Liability for Incurred Claims (LIC).
- The OCL net of recoveries and LIC are largely the same The LRC is greater than the UPL, largely due to differences in the timing of past revenue recognition, together with the need to establish a LRC on old cohorts with minimal UPL.

- The LRC includes a component for the Contractual Service Margin (CSM), which is an allowance for future profits over the life of insurance contracts written that will be recognised in the Income Statement in future periods.

- Deferred Tax Assets (DTA) increase primarily to reflect the tax effect of opening adjustments to insurance contract liabilities.

The aggregate impact of all the changes is a reduction in net assets on transition of $215 million. This is due to the timing of the recognition of past revenue and represents a transfer of previously recognised profits back into liabilities.

Income Statement

The format of the Income Statement under AASB 17 is quite different and changes include:

- Gross Earned Premium is replaced by Insurance Revenue, which is expected to be less impacted by cancellations which brought forward revenue recognition under AASB 1023. High cancellations were a feature of FY22 and therefore revenue is lower than under AASB 1023.

- Incurred claims are expected to be much the same as under AASB 1023, except when there are big changes in the discount rate. Changes in the discount rate on the LIC are included in the insurance finance expense, whereas it is part of incurred claims under AASB 1023. FY22 incurred claims were a small benefit of $1.7 million, but were approximately $33 million higher than under AASB 1023, due to the treatment of changes in the discount rate as interest rates increased materially over the year.

- Amortisation of acquisition costs are much larger as the 2020 DAC write down under AASB 1023 resulted in a lower DAC balance and amortisation charge. For AASB17, an amount equivalent to the amortisation of acquisition expenses is included in revenue.

- Other underwriting expenses (as previously reported under AASB1023) are now split between insurance expenses and other operating expenses, the latter which are not directly related to insurance contracts. The basis of expense allocation is also somewhat different.

- Investment income is the same under both standards and includes unrealised gains and losses. Under AASB 17, the change in prevailing interest rates is reflected in a revaluation of insurance contract liabilities and is included in the net finance expense. This provides an offset to any gains or losses on technical funds backing the insurance liabilities. Given the magnitude of interest rate rises in FY22, the size of the investment losses and the corresponding offset on the net finance expense was particularly large.

Helia will continue to report an Underlying Net Profit After Tax (NPAT) measure that seeks to remove volatility due to investment returns. Given the matching in the Income Statement between the revaluation of the insurance liabilities and the assets backing them under AASB 17, the adjustment to Statutory NPAT will only reflect unrealised gains or losses on shareholder funds.

Regulatory Capital

Under AASB 17, the Prescribed Capital Amount (PCA) and PCA coverage ratio are largely unchanged as at 31 December 2022. The impact of AASB 17 is largely presentational.

- Net assets are reduced due to the opening balance sheet adjustment.
- However, there is a corresponding increase in the net surplus relating to insurance liabilities which leaves the regulatory capital base largely unchanged.

Business Update

Helia provided a business update at our recent Annual General Meeting, held on 11 May 2023. There have been no material changes to the operating environment, business or outlook, or to the Company's capital management plans since then.

1H23 Financial Results Date

Helia expects to issue its financial results for the first half of 2023 to the Australian Securities Exchange (ASX) prior to the market opening on Tuesday, 22 August 2023 subject to completion of the external audit and Board approval of the 1H23 financial report.

AASB 17 Briefing details

A webcast and conference call will be held at 10:30am (Sydney time) on Thursday, 25 May 2023 to discuss the AASB 17 pro forma historical financials.

Webcast

To pre-register please visit: https://edge.media-server.com/mmc/p/hj7ma67o

Conference call

Conference name: AASB 17 pro forma historical financials investor briefing

To register for the conference call please visit: https://s1.c-conf.com/diamondpass/10030483-8rl3hn.html

Australia dial-in details

1800 954 501 (toll free)
+61 2 8072 4187 (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.

China	+4001 200 641	New Zealand	+0800 452 794
France	+0800 915 174	Singapore	+800 852 3140
Hong Kong	+800 906 986	United Arab Emirates	+8000 3570 2320

India	+0008 0010 08069	United Kingdom	+0808 168 3761
Japan	+005 3116 1306	United States / Canada	+1 855 336 4664
Malaysia	+1800 816 445		

Replay

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

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The release of this announcement was authorised by the Board.

Helia Group Limited and its Controlled Entities

ABN 72 154 890 730

AASB 17 PROFORMA FOR INVESTOR PRESENTATION (UNAUDITED)

Consolidated financial statements (unaudited)

Contents

Consolidated statement of comprehensive income (unaudited)

Restated for the year ended 31 December 2022

	Note	31 December 2022 $'000	31 December 2021 $'000
Insurance revenue	2.1	466,611	462,936
Insurance service expense	2.2	(105,319)	(70,948)
Net expense from reinsurance contracts		(60,483)	(68,048)
Insurance service result		300,809	323,940
Investment (loss)/revenue	2.3	(81,628)	(6,528)
Investment expense		(2,871)	(4,029)
Net finance income/(expense) from insurance contracts	2.3	102,070	26,715
Net finance income/(expense) from reinsurance contracts	2.3	349	597
Net financial result		17,920	16,755
Other operating expenses		(20,437)	(20,117)
Financing costs		(12,583)	(10,341)
Share of loss of equity-accounted investees, net of tax		(1,080)	-
Profit before income tax		284,629	310,237
Income tax expense		(83,449)	(92,703)
Profit for the year		201,180	217,534
Total comprehensive income for the period		**201,180**	**217,534**

The consolidated statement of comprehensive income is to be read in conjunction with notes to the unaudited proforma financial statements.

The consolidated statement of comprehensive income for the years ended 31 December 2022 and 2021 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.

Consolidated statement of financial position (unaudited)

Restated as at 31 December 2022

	Note	31 December 2022 $'000	31 December 2021 $'000
Assets			
Cash		23,841	76,724
Accrued investment income		21,783	16,837
Financial Investments		3,230,853	3,627,122
Derivative financial instruments		9,124	-
Trade and other receivables		2,144	4,067
Prepayments		4,716	4,203
Equity-accounted investees		27,449	-
Plant and equipment		3,195	3,448
Lease assets		1,133	3,618
Deferred tax assets		124,696	139,494
Intangibles		2,952	4,643
Goodwill		9,123	9,123
Total assets		**3,461,009**	**3,889,279**
Liabilities			
Derivative financial instruments		-	10,260
Trade payables and other liabilities		70,602	65,861
Lease liabilities		2,360	7,663
Insurance contract liabilities	2.4	1,975,608	2,267,518
Reinsurance contract liabilities	2.4	10,964	14,969
Employee benefits provision		7,058	7,282
Interest bearing financial liabilities		188,701	188,229
Total liabilities		**2,255,293**	**2,561,782**
Net assets		**1,205,716**	**1,327,497**
Equity			
Share capital		906,892	1,087,762
Share-based payment reserve		1,838	806
Other reserves		(476,559)	(476,559)
Retained earnings		773,545	715,488
Total equity		**1,205,716**	**1,327,497**

The consolidated statement of financial position is to be read in conjunction with notes to the unaudited proforma financial statements.

The consolidated statement of financial position for the years ended 31 December 2022 and 2021 reflect the retrospective application of AASB17 Insurance Contracts and consequently the amounts are different from previously published. For Information on adoption of AASB 17 refer to section 1.

Section 1 Adoption of AASB 17 *Insurance Contracts*

This proforma consolidated financial report is for the year ended 31 December 2022 and comprises the consolidated financial statements of Helia Group Limited (the Company) and its controlled entities (together referred to as the Group).

This proforma financial report does not contain all the information required in a complete financial report.

This proforma financial report has been prepared reflecting the retrospective application of AASB 17 - Insurance Contracts for the years ended 31 December 2022 and 2021.

The adoption of AASB 17 *Insurance Contracts*, has a material effect on the Group's financial statements. The nature and effects of the key changes to the Group's accounting policies resulting from its adoption of AASB 17 are summarised below:

- *Recognition, measurement and presentation of insurance contracts*

AASB 17, the new accounting standard for insurance contracts, was issued by the Australian Accounting Standards Board in July 2020. The first applicable annual reporting period for the Group will be for the year ending 31 December 2023, with the comparative period for the year ending 31 December 2022 and the Statement of Financial Position at 1 January 2022. Refer to section 2 for accounting policy information.

- *Measurement*

AASB 17 introduces a new general measurement model for accounting of insurance contracts based on fulfilment cashflows (discounted future cash flows risk adjusted for non-financial risk) and contractual service margin (CSM). The application of a simplified approach is permitted in certain circumstances, although the vast majority of insurance contracts underwritten by the Group don't meet the requirements of the simplified approach due to their long-term coverage period.

- *Presentation and disclosures*

AASB 17 introduces substantial changes to the presentation and disclosures of the financial statements. The disclosures are more extensive, granular and analytical of movements.

- *Transition*

The Group is using the modified retrospective approach for the measurement of the groups of contracts formed pre-transition. This was deemed appropriate on the basis that the cost and effort required in preparing historic estimates was prohibitive or where it was impracticable to apply the full retrospective approach, for example, where historic information was not readily available for those products, or where the liability for remaining coverage is not material.

For the main product:

- The Group has modelled claims using historic valuations of claims liabilities, modified to reflect changes in the actuarial reserving approach brought in on 31 December 2020 in relation to the liability for re-delinquency of previously cured arrears.
- Refunds and premium credits are modelled using historic information but drawing from the current data warehouse to take advantage of material improvements in data capture over time.
- The Group has used expenses cash flows known to have occurred between inception of the insurance contracts and the transition date.
- Risk adjustment has been measured based on historic and forecast volatility of the modelled cash flows.

For most of the smaller products, the Group has taken into account all available experience up to the transition date.

Section 1 Adoption of AASB 17, *Insurance Contracts*, contd.

The effects of adopting AASB 17 on the proforma financial statements as at 1 January 2023 are presented below:

Balance Sheet under AASB 1023		Reversals	AASB 17 remeasurement	Balance Sheet under AASB 17(unaudited)	
	$'000	$'000	$'000	$'000	
Assets					**Assets**
Other assets	3,329,453	-	-	3,329,453	Other assets
Trade and other receivables[3]	8,356	(6,212)	-	2,144	Trade and other receivables
Recoveries receivables[1]	20,263	(20,263)	-	-	-
Deferred acquisition costs[1]	115,330	(115,330)	-	-	-
Prepayment	15,308	(10,592)	-	4,716	Prepayment
Deferred tax assets	32,373	-	92,323	124,696	Deferred tax assets
Total Assets	**3,521,083**	**(152,397)**	**92,323**	**3,461,009**	**Total Assets**
Liabilities					**Liabilities**
Other liabilities	198,119	-	-	198,119	Other liabilities
Trade payables and other liabilities[4]	73,170	(2,568)	-	70,602	Trade payables and other liabilities
Outstanding claims	415,836	(415,836)	386,672	386,672	Liability for incurred claims
Unearned premium	1,403,484	(1,403,484)	1,599,528	1,599,528	Liability for remaining coverage
	-	-	(10,592)	(10,592)	Assets for insurance acquisition cash flows
Reinsurance payable[2]	9,336	(9,336)	10,964	10,964	Reinsurance contract liabilities
Total liabilities	**2,099,945**	**(1,831,224)**	**1,986,572**	**2,255,293**	**Total liabilities**
Net assets	**1,421,138**	**1,678,827**	**(1,894,249)**	**1,205,716**	**Net assets**
Equity					**Equity**
Share capital	906,892	-	-	906,892	Share capital
Share based payment reserve	1,838	-	-	1,838	Share based payment reserve
Other Reserves	(476,559)	-	-	(476,559)	Other Reserves
Retained earnings	988,967	-	(215,422)	773,545	Retained earnings
Total equity	**1,421,138**	**-**	**(215,422)**	**1,205,716**	**Total equity**

1. Deferred acquisition costs, recoveries receivable, unearned premiums and outstanding claims are derecognised and are replaced by Insurance contract liabilities, remeasured in accordance with AASB 17 requirements and methodologies.
2. Reinsurance payable is derecognised and is replaced by Reinsurance contract liabilities, remeasured in accordance with AASB 17 requirements and methodologies.
3. The reversals relate to monthly premium balances, now a part of insurance contract liabilities, remeasured in accordance with AASB 17 requirements and methodologies.
4. The reversals relate to monthly premium balances and reinsurance liabilities, now a part of insurance contract liabilities and reinsurance contract liabilities, respectively, remeasured in accordance with AASB 17 requirements and methodologies.

Section 1 Adoption of AASB 17, *Insurance Contracts*, contd.

The effects of adopting AASB 17 on the proforma financial statements as at 1 January 2022 are presented below:

Balance Sheet under AASB 1023		Reversals	AASB 17 remeasurement	Balance Sheet under AASB 17 (unaudited)	
	$'000	$'000	$'000	$'000	
Assets					**Assets**
Other assets	3,745,718	-	-	3,745,718	Other assets
Trade and other receivables[3]	7,821	(3,754)	-	4,067	Trade and other receivables
Recoveries receivables[1]	21,604	(21,604)	-	-	-
Deferred acquisition costs[1]	88,510	(88,510)	-	-	-
Deferred reinsurance expense[2]	8,665	(8,665)	-	-	-
Deferred tax assets	40,994	-	98,500	139,494	Deferred tax assets
Total Assets	**3,913,312**	**(122,533)**	**98,500**	**3,889,279**	**Total Assets**
Liabilities					**Liabilities**
Other liabilities	213,434	-	-	213,434	Other liabilities
Trade payables and other liabilities[4]	69,100	(3,239)	-	65,861	Trade payables and other liabilities
Outstanding claims	480,256	(480,256)	437,196	437,196	Liability for incurred claims
Unearned premium	1,571,834	(1,571,834)	1,830,322	1,830,322	Liability for remaining coverage
	-	-	-	-	Assets for insurance acquisition cash flows
Reinsurance payable[2]	21,359	(21,359)	14,969	14,969	Reinsurance contract liabilities
Total liabilities	**2,355,983**	**(2,076,688)**	**2,282,487**	**2,561,782**	**Total liabilities**
Net assets	**1,557,329**	**1,954,155**	**(2,183,987)**	**1,327,497**	**Net assets**
Equity					**Equity**
Share capital	1,087,762	-	-	1,087,762	Share capital
Share based payment reserve	806	-	-	806	Share based payment reserve
Other Reserves	(476,559)	-	-	(476,559)	Other Reserves
Retained earnings	945,320	-	(229,832)	715,488	Retained earnings
Total equity	**1,557,329**	**-**	**(229,832)**	**1,327,497**	**Total equity**

1. Deferred acquisition costs, recoveries receivable, unearned premiums and outstanding claims are derecognised and are replaced by Insurance contract liabilities, remeasured in accordance with AASB 17 requirements and methodologies.
2. Deferred reinsurance expense and reinsurance payable are derecognised and are replaced by Reinsurance contract liabilities, remeasured in accordance with AASB 17 requirements and methodologies.
3. The reversals relate to monthly premium balances, now a part of insurance contract liabilities, remeasured in accordance with AASB 17 requirements and methodologies.
4. The reversals relate to monthly premium balances and reinsurance liabilities, now a part of insurance contract liabilities and reinsurance contract liabilities, respectively, remeasured in accordance with AASB 17 requirements and methodologies.

Section 2 Insurance contracts

AASB 17 introduces a methodology that measures groups of insurance contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a Contractual Service Margin (CSM).

Under AASB 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services provided by the Group during the period.

All the Group's contracts are considered to be insurance contracts under AASB 17.

For the Group's direct insurance business, the insurance contract is at the borrower level (as opposed to the lender policyholder) as the Group has the ability to accept or reject individual applications. For the Group's inwards reinsurance business, the insurance contract is at the lender policyholder level. The Group is including direct contracts issued and inward reinsurance contracts issued in different groups.

- *Level of aggregation*

The Group's single portfolio of insurance contracts is disaggregated by underwriting years and in some instances by state, with a further breakdown for contracts considered onerous (unprofitable).

- *Fulfillment cash flows*

All future fulfilment cash flows relating to in-force insurance contracts are estimated and recognised within the liability for claims and liability for remaining coverage.

- *CSM*

For each group of insurance contracts, a component of the expected future profit, CSM, is included within the liability for remaining coverage. The CSM is released to insurance revenue over the coverage period as the insurance service is provided by the Group. The provision of insurance service (coverage units), which underpins the recognition of the CSM, is based on several factors including the expected insurance inforce and estimated average claims severity. This is estimated by adjusting the outstanding loan balance by severity factors, informed by past experience. These assumptions will be reviewed on a regular basis. CSM is discounted using the discount factors prevailing at the time the group of contracts is incepted.

- *Risk adjustment*

The insurance liability also includes a risk adjustment for non-financial risk under AASB 17 to reflect the compensation that the entity requires for bearing uncertainty about the amount and timing of the cash flows. The risk adjustment is determined using a confidence level.

- *Discounting*

The fulfilment cash flows within the insurance contract liability are discounted using discount rates that are based on market rates at the valuation date. The Group recognises the insurance finance expense (effect of unwinding the discounting impact and the changes in discount rates) fully in profit or loss, as opposed to disaggregating it between profit or loss and other comprehensive income. This ensures the most effective matching with the investment portfolio which is measured at fair value through profit in accordance with AASB 9.

2.1 Insurance revenue

	31 December 2022 $'000	31 December 2021 $'000
Amounts relating to changes in liabilities for remaining coverage:		
Expected insurance service expenses incurred in the period	172,734	198,364
Risk adjustment recognised in revenue for non-financial risk	51,510	58,983
Premium experience variations	12,007	(24,639)
Amount of CSM recognised in profit or loss	164,352	166,600
Allocation of the portion of premiums that relate to the recovery of insurance acquisition cash flows	66,008	63,628
Total Insurance revenue	**466,611**	**462,936**

2.2 Insurance service expense

	31 December 2022 $'000	31 December 2021 $'000
Incurred claims from current period	60,662	57,426
Changes to liabilities for incurred claims from prior periods	(62,379)	(77,132)
Insurance expenses	45,355	44,152
Amortisation of insurance acquisition cash flows	66,008	63,628
Losses on onerous contracts and reversals of those losses	(4,327)	(17,126)
Insurance service expense	105,319	70,948

2.3 Net Financial Result

Investment (loss)/ revenue

	31 December 2022 $'000	31 December 2021 $'000
Interest revenue	55,899	36,516
Dividend/distribution revenue	8,349	6,839
Unrealised losses (including derivatives) measured at fair value through profit or loss (FVTPL)	(94,456)	(10,946)
Realised (losses)/gains (including derivatives) measured at fair value through profit or loss (FVTPL)	(51,420)	(39,725)
Other income gains/(losses)	-	788
Total investment (loss)/revenue	**(81,628)**	**(6,528)**
Represented by:		
Investment (loss)/revenue on assets backing insurance contracts	(84,594)	(33,978)
Investment revenue on equity holders' funds	2,966	27,450
	(81,628)	**(6,528)**

Note 2.3 Net Financial Result contd.

Net finance income/(expense) from Insurance/Reinsurance contracts

	31 December 2022 $'000	31 December 2021 $'000
Interest accreted to insurance contracts using current financial assumptions	(4,452)	(2,135)
Interest accreted to insurance contracts using locked-in rate	(13,108)	(9,881)
Due to changes in interest rates and other financial assumptions	119,630	38,731
Net foreign exchange income / (expense)	-	-
Total insurance finance income / (expense) from insurance contracts	**102,070**	**26,715**
Total insurance finance income / (expense) from reinsurance contracts	**349**	**597**

2.4 Insurance and Reinsurance contracts

	31 December 2022 $'000	31 December 2021 $'000
Insurance contract liabilities:		
- Liability for remaining coverage (LRC)		
• Present value of future cashflows	755,273	851,852
• Risk adjustment	178,358	195,217
• Contractual service margin	665,897	783,253
Sub-total	1,599,528	1,830,322
- Liability for incurred claims (LIC)		
• Present value of future cashflows	330,636	373,747
• Risk adjustment	56,036	63,449
Sub-total	386,672	437,196
Total of LRC and LIC	1,986,200	2,267,518
- Assets for insurance acquisition cash flows	(10,592)	-
	1,975,608	**2,267,518**
Reinsurance contract liabilities:		
- Liability for remaining coverage (LRC)	**10,964**	**14,969**

2.5 Effects of contracts initially recognised in the year

	31 December 2022 $'000	31 December 2021 $'000
Claims and other insurance service expenses payable	(196,883)	(292,468)
Insurance acquisition cash flows	(59,951)	(65,089)
Estimates of present value cash outflows	(256,834)	(357,557)
Estimates of present value cash inflows	401,106	655,410
Risk adjustment for non-financial risk	(39,084)	(54,958)
CSM	(105,188)	(242,895)
Losses recognised on initial recognition	-	-

2.6 Contractual service margin

The following table sets out when the Group expects to recognise the remaining CSM in profit or loss after the reporting date. The assumptions and basis on which the CSM is calculated is included in the introduction to Section 2.

	31 December 2022 $'000	31 December 2021 $'000
Less than one year	137,967	159,083
One to two years	121,329	131,080
Two to three years	102,733	114,787
Three to four years	83,173	96,586
Four to five years	64,973	77,005
More than five years	155,722	204,712
Total	665,897	783,253