Helia Insurance Pty Limited
New Zealand Branch

(formerly known as Genworth Financial Mortgage Insurance Pty Limited New Zealand Branch)

Annual Financial Report
31 December 2022

Directors' report

The Directors of Helia Insurance Pty Limited (the Company) present their report together with the financial statements of Helia Insurance Pty Limited New Zealand Branch (the Branch) for the year ended 31 December 2022 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are as follows:

Current directors
Pauline Blight-Johnston
Ian MacDonald
Gai McGrath
Alistair Muir
Leona Murphy (appointed on 1 November 2022)
Gerd Schenkel
Andrea Waters
Duncan West

Former directors
David Foster (resigned on 31 March 2022)

Change of name

Genworth Financial Mortgage Insurance Pty Limited changed its name to Helia Insurance Pty Limited on 15 November 2022.

Principal activities

The principal activity of the Branch during the financial year was the provision of lenders mortgage insurance (LMI). The Branch ceased to write new business from 30 September 2011, and ceased writing top up policies from 30 September 2013. The Branch continues to manage the run-off portfolio.

Review and result of operations

The Branch's profit after income tax amounted to $50,036 (2021: profit of $1,353,534). The Branch is in run-off and has not underwritten insurance policies since 2013. The profit was driven by a reduction in the outstanding claims reserves due to a favourable experience.

Corporate structure

Helia Insurance Pty Limited New Zealand Branch is a branch of an Australian company, Helia Insurance Pty Limited (formerly Genworth Financial Mortgage Insurance Pty Limited).

The parent entity of the Company is Helia Group Limited (HLI, formerly Genworth Mortgage Insurance Australia Limited). HLI is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange (ASX).

The Branch's registered office is located at c/o Bell Gully, Vero Centre, 48 Shortland Street, Auckland.

Change in the state of affairs

There were no significant changes in the state of affairs of the Company during the year.

Events subsequent to reporting date

Details of matters subsequent to the end of the financial year are set out in the events subsequent to reporting date note within the financial statements.

Branch number

1493716

Auditors

KPMG

Bankers

Westpac Banking Corporation

Solicitors

Bell Gully
PO Box 4190
Auckland

The Board of Directors present their Annual Report, including financial statements of the Branch, for the year ended 31 December 2022, and the auditor's report thereon.

The shareholder of the Company has exercised its right under Section 211(3) of the Companies Act 1993 (the Act) and unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of Section 211(1) of the Act.

For and on behalf of the Board:

Ian MacDonald
Chairman

Andrea Waters
Director

Dated at Sydney, 24 February 2023

Financial statements

Contents

Statement of comprehensive income

For the year ended 31 December 2022

	Note	2022 NZ$	2021 NZ$
Movement in unearned premium		3,741	7,521
Net earned premium		3,741	7,521
Net claims written back	4.1	65,412	1,337,177
Decrease in unexpired risk liability	4.5	-	79,337
Underwriting result		69,153	1,424,035
Investment income	3.1	9,606	16,454
Other operating expenses		(8,758)	(10,780)
Profit before income tax		70,001	1,429,709
Income tax expense	3.3	(19,965)	(76,175)
Profit for the year		50,036	1,353,534
Total comprehensive income for the year		50,036	1,353,534

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

Statement of financial position

As at 31 December 2022

	Note	2022 NZ$	2021 NZ$
Assets			
Cash		200,792	139,341
Accrued investment income		-	6,625
Investments	2.1(e)	-	1,700,000
Recoveries receivable		936	1,642
Total assets		201,728	1,847,608
Liabilities			
Trade and other payables	6.1	20,375	78,783
Outstanding claims	4.2	33,116	66,883
Unearned premiums	4.4	562	4,303
Total liabilities		54,053	149,969
Head Office Account		147,675	1,697,639
Total liabilities and Head Office Account		201,728	1,847,608

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

Statement of movements in head office account

For the year ended 31 December 2022

	2022 NZ$	2021 NZ$
Head office account at the beginning of the year	1,697,639	844,105
Return of capital	(1,600,000)	(500,000)
Profit for the year	50,036	1,353,534
Head office account at the end of the year	147,675	1,697,639

The statement of movements in head office account is to be read in conjunction with the notes to the financial statements.

Statement of cash flows

For the year ended 31 December 2022

	Note	2022 NZ$	2021 NZ$
Cash flows from operating activities			
Interest and other income		16,230	22,996
Claims recoveries received		32,351	37,013
Cash payments in the course of operations		(8,758)	(8,173)
Income tax paid		(78,372)	-
Net cash (used in)/provided by operating activities	3.2	(38,549)	51,836
Cash flows from investing activities			
Payments for the purchase of investments		-	(3,400,000)
Proceeds from sale of investments		1,700,000	3,950,000
Net cash provided by investing activities		1,700,000	550,000
Cash flows from financing activities			
Return of capital		(1,600,000)	(500,000)
Net cash used in financing activities		(1,600,000)	(500,000)
Net increase in cash held		61,451	101,836
Cash at the beginning of the financial year		139,341	37,505
Cash at the end of the financial year		200,792	139,341

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the financial statements

Section 1 – Basis of preparation

1.1 Reporting entity

Helia Insurance Pty Limited New Zealand Branch (the Branch) is registered to carry on insurance in New Zealand as a foreign Branch. The principal activity is the provision of lenders mortgage insurance (LMI). The Branch is a for-profit entity.

The financial statements were authorised for issue by the Board of Directors on 24 February 2023.

1.2 Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit generating entities. The Branch is a reporting entity in terms of the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The International Accounting Standards Board (IASB) has issued a new standard (IFRS 17 *Insurance Contracts* – adopted as NZ IFRS 17 *Insurance Contracts* in a New Zealand context), that does include such criteria, with an effective date of 1 January 2023. At the time of implementing NZ IFRS 17, NZ IFRS 9 *Financial Instruments* will be implemented as well given the Branch meets the requirements for deferral under NZ IFRS 4 *Insurance Contracts.* Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

(b) Basis of preparation

These financial statements are presented in New Zealand dollars.

Helia Insurance Pty Limited New Zealand Branch is a branch of Helia Insurance Pty Limited (the Company) and is a separate reporting entity in terms of the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The Branch and head office are one legal entity and therefore the Branch's financial statements should be read in conjunction with the Company's. The Company has a strong financial position and will provide necessary financial support when it is required to meet any future claims obligations of the Branch and any deficit in the head office account, should it arise. Based on this the directors are satisfied that the going concern assumption is appropriate.

The statement of financial position has been prepared using the liquidity format of presentation, in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the respective current and non-current amounts is disclosed in the relevant notes to the financial statements.

Items included in the financial statements are measured using the currency of the primary economic environment in which the Branch operates. The financial statements are presented in New Zealand dollars, which is the Branch's functional and presentation currency.

Note 1.2(b) Basis of preparation (cont'd)

The Branch has applied the amendment to NZ IFRS 4 *Applying NZ IFRS 9 Financial Instruments with* NZ IFRS 4 *Insurance Contracts* from 1 January 2018, and has made the required disclosures in its financial statements in relation to the deferral of NZ IFRS 9 *Financial Instruments*.

The Branch continues to progress its NZ IFRS 17 implementation program including the detailed impact assessment of the new standard and the requirements to implement and modify systems and processes for adoption on 1 January 2023.

As at the date of this report, key aspects considered under the Branch's detailed impact assessment of the new standard include:

Insurance contracts – the Branch currently comprises a single portfolio of insurance contracts with similar risks which are managed together. The Branch expects that all its contracts considered to be insurance contracts under NZ IFRS 4 will continue to be accounted as insurance contracts under NZ IFRS 17.

Under NZ IFRS 17, the insurance contract portfolio is required to be disaggregated to a more granular level (groups of insurance contracts) into underwriting years and levels of profitability at inception.

Contractual service margin (CSM) – for each group of insurance contracts, the expected future profit is included within the insurance contract liability and represents the CSM. The CSM is released to insurance revenue over the coverage period as the insurance service is provided. The Branch is in deep run off, and it does not expect to incur future claims. As a result, on transition to NZ IFRS 17, the Branch was not expecting to provide future service, and expects to have a CSM of NIL at that date.

Presentation and disclosures – NZ IFRS 17 introduces substantial changes to the presentation and disclosures of the financial statements. The disclosures are expected to be more extensive, requiring increased granularity and analysis of movements.

The requirements of NZ IFRS 17 are complex and the Branch's expectations are subject to change as it continues to assess the impact of the standard and interpretation developments. The Branch continues to closely monitor all these developments and to assess the financial impacts of the standard on the Branch.

A number of other new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2023, and have not been applied in preparing these financial statements. An initial assessment of these standards and amendments has taken place and the application of these standards is not expected to have material impact on the Branch's accounting policies.

The financial report is prepared on the historical cost basis except for investments being stated at fair value and outstanding claims and the related reinsurance recoveries on unpaid claims being stated at present value.

(c) Cash

Cash and deposits held at call with financial institutions. Cash is measured at fair value, being the principal amount.

(d) Earned and unearned premium revenue

Premiums have been brought to account as income from the date of attachment of risk over periods of up to 12 years based on an actuarial assessment of the pattern and period of risk. The earned portion of premiums received is recognised as revenue. The balance of premium received is carried as an unearned premium reserve.

(e) Comparative figures

Comparative figures have been adjusted, where necessary, to conform to the basis of presentation and the classification used in the current year.

Section 2 - Risk management

2.1 Financial risk management

(a) Risk management framework

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established a Risk Committee and an Audit Committee. The Risk Committee is responsible for developing and monitoring the Company's risk management policies, and reports regularly to the Board on its activities. Furthermore, the Risk Committee assists the Board in providing an objective non-executive review and oversight of the implementation and on-going operation of the Company's Risk Management Framework. The Risk Committee works closely with other Board Committees that have oversight of some material risks to ensure that all risks are identified and adequately managed.
The Audit Committee assists the Board in providing an objective non-executive review of the effectiveness of the Risk Management Framework, in relation to the management of material financial risks.

The Company's risk management policies are established to identify and assess the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Company's activities. The Company, through its management policies and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Risk is managed primarily through appropriate pricing, product design, risk selection, investment strategies, financial strength ratings and reinsurance. It is vital that the Company closely monitors and responds to any changes in the general economic and commercial environment in which it operates.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk includes interest rate risk.

Cash flow and fair value interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Branch is exposed to interest rate risk arising from interest bearing assets. Assets with floating rate interest expose the Branch to cash flow interest rate risk. Fixed interest rate assets expose the Branch to fair value interest rate risk. The Branch's strategy is to invest predominantly in cash and term deposits.

(c) Credit risk exposure

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Branch's credit risk arises predominantly from investments and the amounts are as indicated by the carrying amounts of the financial assets.

The Branch's investment portfolio comprises 100% cash (2021: 8%) with counterparties having a rating of AA based on the lower equivalent rating of either Standard & Poor's or Moody's. The Branch does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings.

Note 2.1(c) Credit risk exposure (cont'd)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. As at balance date there were no assets past due.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company has a strong financial position and will provide necessary financial support when it is required to meet any future claims obligations of the Branch and any deficit in the head office account.

Management of liquidity risk includes asset and liability management strategies. The assets held to back insurance liabilities are cash and term deposits. The assets are managed so as to appropriately match the coupon and maturity profile to the expected pattern of claims payments.

There were no financial liabilities payable other than trade and other payables as at 31 December 2022 (2021: nil).

(e) Fair value measurements

Accounting policies

The valuation methodology of assets valued at fair value is summarised below:

- Term deposits, cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn.

The Branch's financial assets and liabilities are carried in the statement of financial position at amounts that approximate fair value.

The Branch investments carried at fair value have been classified under the three levels of the NZ IFRS 13 fair value hierarchy as follows:

- Level 1 - Fair value investments which are quoted in active and known markets. The quoted prices are those at which transactions have regularly and recently taken place within such markets.
- Level 2 - Fair value investments using inputs other than quoted prices within Level 1 that are observable either directly or indirectly.
- Level 3 - Fair value investments using valuation techniques that include inputs that are not based on observable market data.

All investments (term deposits) of nil (2021: $1,700,000) are considered Level 1 assets.

Section 3 – Results for the year

3.1 Investment income

Accounting policies

Interest revenue

Interest revenue is recognised as it accrues, taking into account the coupon rate on investments and interest rates on cash and term deposits, net of withholding tax paid or payable.

	2022	2021
	NZ$	NZ$
Interest revenue	9,606	16,454

3.2 Net cash (used in)/provided by operating activities

This note reconciles the operating profit to the cash provided by operating activities per the cash flow statement.

	2022	2021
	NZ$	NZ$
Profit after income tax	50,036	1,353,534
Net cash provided by operating activities before change in assets and liabilities	50,036	1,353,534
Change in assets and liabilities during the financial year:		
Decrease in receivables	7,331	63,638
Decrease in outstanding claims liability	(33,767)	(1,357,260)
(Decrease)/increase in payables	(58,408)	78,783
Decrease in unexpired risk liability	-	(79,337)
Decrease in unearned premiums	(3,741)	(7,522)
Net cash (used in)/provided by operating activities	(38,549)	51,836

3.3 Income taxes

Accounting policies

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Note 3.3 Income taxes (cont'd)

Income tax expense

	2022	2021
	NZ$	NZ$
Income tax expense	19,965	76,175
	19,965	76,175

Reconciliation of income tax expense to prima facie tax payable

	2022	2021
	NZ$	NZ$
Prima facie income tax expense calculated at 28% (2021: 28%) on profit	19,600	400,319
Movements in income tax expense due to:		
Over provision in prior year	(411)	(1,878)
Non-deductible items	776	-
Adjustments for temporary differences	-	(22,214)
Carried forward tax losses utilised	-	(300,052)
Income tax expense/(benefit) on profit/(loss)	19,965	76,175

Section 4 – Insurance contracts

Accounting policies

Classification of insurance contracts

Contracts under which an entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is a risk other than financial risk.

4.1 Net claims written back

(a) Claims analysis

	2022 NZ$	2021 NZ$
Gross claims written back	(33,061)	(1,300,164)
Reinsurance and other recoveries revenue	(32,351)	(37,013)
Net claims written back	(65,412)	(1,337,177)

(b) Claims development

	2022 Current Year NZ$	2022 Prior Years NZ$	2022 Total NZ$	2021 Current Year NZ$	2021 Prior Years NZ$	2021 Total NZ$
Gross claims (written back)/incurred						
Direct	3,330	(36,391)	(33,061)	25,643	(1,325,807)	(1,300,164)
Gross claims (written back)/incurred[1]	3,330	(36,391)	(33,061)	25,643	(1,325,807)	(1,300,164)
Reinsurance and other recoveries revenue	-	(32,351)	(32,351)	-	(37,013)	(37,013)
Net claims (written back)/incurred	3,330	(68,742)	(65,412)	25,643	(1,362,820)	(1,337,177)

[1] including reinsurance and other recoveries provision movement

Current year amounts relate to risks borne in the current financial year. Prior years amounts relate to a reassessment of the risks borne in all previous financial years.

4.2 Outstanding claims

Accounting policies

Claims expense and a liability for outstanding claims are recognised in respect of direct business. The liability covers claims reported and outstanding, incurred but not reported (IBNR) and the expected direct and indirect costs of settling those claims. Outstanding claims are assessed by estimating the ultimate cost of settling delinquencies, which includes IBNR and settlement costs, using statistics based on past experience and trends. Changes in outstanding claims are recognised in profit or loss in the reporting period in which the estimates are changed.

The provision for outstanding claims contains a risk margin to reflect the inherent uncertainty in the central estimate, the central estimate being the expected value of outstanding claims.

Note 4.2 Outstanding claims (cont'd)

As at 31 December 2022, the outstanding claims liability is discounted at risk-free rates. Given the nature of Lenders Mortgage Insurance, interest rates also impact the level of delinquencies and future claims. The Branch includes an additional liability equal to the time value of money to allow for potential future deterioration of delinquency experience due to recent (and potential future) rises in mortgage rates.

As at 31 December 2021, no discounting was applied on the basis that the effect was immaterial.

Refer to note 4.6 Accounting estimates and judgements (including actuarial assumptions and methods) for further detailed information.

	2022	2021
	NZ$	NZ$
Central estimate	28,207	56,931
Risk margin	4,909	9,952
Gross outstanding claims	33,116	66,883

Reconciliation of changes in outstanding claims

	2022	2021
	NZ$	NZ$
Balance as at 1 January	66,883	1,424,143
Current year net claims written back	(65,412)	(1,337,177)
Claims paid	-	-
Movement in non-reinsurance recoveries	(706)	(57,096)
Claims recoveries received	32,351	37,013
Balance as at 31 December	33,116	66,883
Comprising:		
Current	10,434	21,779
Non-current	22,682	45,104
	33,116	66,883

4.3 Recoveries receivable

Accounting policies

Reinsurance and non-reinsurance recoveries receivable on paid claims, reported claims not yet paid and IBNR claims are recognised as revenue. Recoveries receivable on are presented net of any provision for impairment based on objective evidence for individual receivables. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

Reinsurance does not relieve the Branch of its liabilities to policyholders and reinsurance recoveries are, if applicable, presented as an asset within the Recoveries receivable balance.

4.4 Unearned premiums

Accounting policies

Earned and unearned premium revenue

Premiums have been brought to account as income from the date of attachment of risk over periods up to 12 years based on an actuarial assessment of the pattern and period of risk. The earned portion of premium received is recognised as revenue. The balance of premium received or receivable is recorded as unearned premium.

Refer to note 4.6 Accounting estimates and judgements (including actuarial assumptions and methods) for further detailed information.

	2022 NZ$	2021 NZ$
Balance as at 1 January	4,303	11,825
Premiums earned during the year	(3,741)	(7,522)
Balance as at 31 December	562	4,303

Comprising:		
Current	560	3,741
Non-current	2	562
	562	4,303

4.5 Unexpired risk liability

Accounting policies

The liability adequacy test (LAT) is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. It comprises current estimates of the present value of the expected cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate. If the future claim costs exceed the unearned premium liability less related deferred reinsurance expense and deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the portfolio level of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency is recognised in the statement of comprehensive income, with a corresponding impact in the statement of financial position, recognised first through the write-down of related deferred acquisition costs and any remaining balance being recognised as an unexpired risk liability.

The probability of adequacy (POA) adopted for liability adequacy test is set at 70% and differs from the 75% probability of adequacy adopted in determining the outstanding claims liabilities (refer to note 4.6). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

At 31 December 2022, expected future claims (including an appropriate risk margin) do not exceed the unearned premium, creating a LAT surplus of $562 (2021: $4,303).

4.6 Accounting estimates and judgements (including actuarial assumptions and methods)

Critical accounting estimates and judgements

The Branch makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 4.6 Accounting estimates and judgements (including actuarial assumptions and methods)(cont'd)

The areas where critical accounting estimates and judgements are applied are noted below.

(a) Outstanding claims

Provision is made for the estimated claim cost of delinquencies at the statement of financial position date, including the cost of delinquencies incurred but not yet reported to the Branch.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of expected third party recoveries. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, the final outcome may prove to be different from the original liability established.

A risk margin is added to the central estimate as an additional allowance for uncertainty in the ultimate cost of claims over and above the central estimate. The overall margin adopted by the Branch is determined after considering the uncertainty in the portfolio, industry trends, the Branch's risk appetite and the margin corresponding with that appetite.

Provisions are calculated gross of any recoveries. A separate estimate is made of the amounts that will be recoverable from lenders under specified arrangements. Estimates are also made for amounts recoverable from borrowers and property valuers, based upon the gross provisions.

Actuarial valuation approach

The Branch internally values the outstanding claims liabilities at the reporting date. The valuation approach is consistent with that recommended by the Company's Appointed Actuary.

The valuation methods used are based on the underlying attributes of the delinquency portfolio. The Branch establishes provisions for outstanding claims in two parts:

- Delinquent policies advised to the Branch by lenders as being 90 days delinquent at the valuation date;
- IBNR, being the liability for future claims from policies which have missed at least 1 monthly repayment (or equivalent) and are not currently reported by lenders as being 3 months or more in delinquency. This includes policies that were reported delinquent in past periods and may re-report as delinquent in future periods.

For loans where the mortgagee is in possession (MIP) and a claim has been submitted, the claimed amount adjusted for amounts not eligible to be claimed is provided. For loans where there is a MIP but a claim has not yet been submitted, a case estimate based approach is used utilising the current outstanding loan balance including accumulated arrears adjusted for selling costs, the most recent property valuation, or an estimate thereof, and any amounts not eligible to be claimed.

The provision in respect of delinquent loans not in possession by the mortgagee is determined according to the following formula:

- Outstanding loan amount insured multiplied by frequency factor multiplied by severity factor.

In applying this formula:

- The outstanding loan amount insured is the total outstanding amount on those loans advised to the Branch;
- The frequency and severity factors are based on a review of historical claims and delinquency experience performed by the Appointed Actuary for the Company and adopted by the Branch.

Note 4.6 Accounting estimates and judgements (including actuarial assumptions and methods)(cont'd)

Frequency

While the propensity for a delinquent loan to become a claim varies for many explanatory factors (as determined by the Appointed Actuary's analyses), the frequency basis is summarised on any given balance date and expressed so that it varies by loan to value ratio (LVR) band, housing price appreciation (HPA) and number of payments in arrears taking into account the average mix of effects of the other explanatory factors at the balance date. Additional loadings may be placed on these factors with the aim of adjusting for shorter term expectations of frequency.

Severity

Claim severity varies according to the geographic region of the properties secured by the mortgages and mortgagor groups. Claim severity is expressed as a percentage of the outstanding loan amount insured at the arrears date.

The following average frequency and severity factors were used in the measurement of outstanding claims for policies being greater than 90 days delinquent at the valuation date:

- Average frequency factor is 18% (2021: 18%)
- Average severity factor is 7% (2021: 11%)

IBNR

The IBNR provision is estimated by analysing the historical pattern of reported delinquencies, separated into:

- Policies reported by lenders as being between 30 and 90 days delinquent at the valuation date (not all lenders provide such reporting);
- Policies estimated as being at least 30 days delinquent at the valuation date but not reported by lenders; and
- Policies which were reported as being at least 30 days delinquent in past periods and may re-report as delinquent in future periods.

Risk Margin

The risk margin is a specific allowance for uncertainty in the ultimate cost of claims over and above the central estimate determined on the bases set out above. The overall margin adopted by the Branch is determined after considering the uncertainty in the portfolio, industry trends, the Branch's risk appetite and the margin corresponding with that appetite.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured or notified to the Branch until some time after the events giving rise to the claims have happened.

Note 4.6 Accounting estimates and judgements (including actuarial assumptions and methods)(cont'd)

The Appointed Actuary reviews the factors impacting the portfolio to establish a recommended risk margin at the level required by the Branch and APRA. Factors considered include:

- Variability of claims experience of the portfolio;
- Quality of historical data;
- Uncertainty due to future economic conditions;
- Diversification within the portfolio; and
- Increased uncertainty due to future legislative changes.

A risk margin for outstanding claims of 18% (2021: 18%) of net central estimate has been assumed and is intended to achieve a 75% PoA.

The weighted average term to settlement is approximately 24 months (2021: 25 months).

Sensitivity Analysis

The results of the NZ actuarial valuation are subject to various degrees of uncertainty depending on economic experience and the volatility of claim experience over time. The valuation result is within expectations and the net outstanding claims provision amounted to $32,180 (2021: $65,241). The NZ portfolio is also less sensitive to future economic conditions as the book is ageing and the level of embedded home equity in the portfolio remains strong.

Claims handling expenses

Claims handling expenses are estimated after considering historical actual expenses and management's projected costs of handling claims over the weighted average term to settlement.

(b) Unearned premium

Premium is earned over periods of up to 12 years. The principle underlying the earning recognition is to derive a premium earnings curve which recognises the premium in accordance with the incidence of claims risk.

The review of the premium earnings curve is based on analysis of a number of factors including the historical pattern of claims incurred, the pattern of policy cancellations, economic outlook and policyholder risk profile. Changes are recommended by the Appointed Actuary when the results of an analysis indicate an ongoing change in the pattern of emergence of risk.

Section 5 – Capital management

5.1 Capital management

Under the New Zealand Insurance (Prudential Supervision) Act 2010 (the Supervision Act), insofar as it relates to the Company, insurance entities operating in New Zealand are required to meet minimum solvency standards. The Branch has a section 59 exemption which, subject to certain requirements, means the Company is deemed to comply with the minimum solvency standards set out in the Supervision Act, provided it meets the corresponding APRA solvency requirements in Australia. The Company is in a strong financial position and will provide necessary financial support to the Branch when required to maintain any minimum solvency standards, to meet any future claims obligations of the Branch and any deficit in its head office accounts.

Under NZ legislation, the Company is required to maintain a solvency margin which is pursuant to an exemption granted by the Reserve Bank of New Zealand (RBNZ) and is calculated in accordance with Australian solvency requirements.

Note 5.1 Capital management (cont'd)

The solvency information for the Company as at 31 December 2022 using RBNZ published exchange rate 1 AUD is 1.0623 NZD (2021: 1 AUD - 1.0535 NZD) are detailed below:

	2022	2021
	NZ$'000	NZ$'000
Actual solvency capital	1,907,312	2,123,592
Minimum solvency capital	900,670	1,053,800
Solvency margin	1,006,642	1,069,792
Solvency ratio	212%	202%

The Australian Prudential Regulation Authority's (APRA's) Prudential Standard GPS 110 Capital Adequacy requires additional disclosure in the annual financial statements to improve policyholder and market understanding of the capital adequacy of the Company.

The calculation of the Prescribed Capital Amount (PCA) is provided in the table below in Australian dollars:

	2022	2021
	A$'000	A$'000
Tier 1 capital		
Paid-up ordinary shares	1,401,559	1,401,559
Other reserves	(603,183)	(603,167)
Retained earnings	528,568	732,740
Less: Deductions	(20,130)	(28,035)
Net surplus relating to insurance liabilities	298,641	322,617
Common equity Tier 1 capital	1,606,455	1,825,714
Tier 2 capital	190,000	190,000
Total capital base	1,795,455	2,015,714
Insurance risk charge	236,713	277,531
Insurance concentration risk charge	438,080	573,862
Asset risk charge	229,456	196,291
Operational risk charge	33,705	35,632
Aggregation benefit	(90,105)	(83,049)
Total PCA	847,849	1,000,267
PCA coverage	2.12x	2.02x

Insurer Financial Strength Ratings

In April 2022, Fitch affirmed the insurer financial strength (IFS) rating of Helia Insurance Pty Limited as 'A' (Strong) with the outlook 'stable'. In February 2022, Standard & Poor's affirmed the IFS rating as 'A', with the outlook revised from 'negative' to 'stable'. Both agencies acknowledged the capital strength and strong competitive position of the Company.

5.2 Capital commitments and contingencies

Capital commitments

There were no capital commitments as at 31 December 2022 (31 December 2021: nil).

Note 5.2 Capital commitments and contingencies (cont'd)

Contingencies

Contingent liabilities are not recognised on the balance sheet but are disclosed where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required, or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure.

There were no contingent liabilities as at 31 December 2022 (31 December 2021: nil).

Section 6 – Operating assets and liabilities

6.1 Trade and other payables

Accounting policies

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30-60 days. The carrying amount of accounts payable approximates fair value.

	2022 NZ $	2021 NZ $
Income tax payable	20,375	78,783
Current	20,375	78,783

Section 7 – Other disclosures

7.1 Remuneration of auditors

	2022 NZ $	2021 NZ $
Audit of financial reports	11,171	10,666
	11,171	10,666

Fees for the Branch are paid by the head office of the Company.

7.2 Related party disclosures

Transactions with related parties are undertaken on normal commercial terms and conditions.

7.3 Events subsequent to reporting date

There are no events that have arisen since 31 December 2022 to the date of this report that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Company or the state of affairs of the Company in future years.

Directors' declaration

In the opinion of the directors of Helia Insurance Pty Limited, the financial statements and notes of the New Zealand Branch on pages 4 to 21:

(i) comply with New Zealand Generally Accepted Accounting Practice and give a true and fair view of the financial position of the Branch as at 31 December 2022 and the results of its operations for the year ended on that date; and

(ii) have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013 and the Financial Reporting (Amendments to Other Enactments) Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board:

Ian MacDonald	Andrea Waters
Chairman	**Director**

Dated at Sydney, 24 February 2023

Independent Auditor's Report

To the Shareholders of Helia Insurance Pty Limited - New Zealand Branch (formerly known as Genworth Financial Mortgage Insurance Pty Limited - New Zealand Branch)

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Helia Insurance Pty Limited - New Zealand Branch (formerly known as Genworth Financial Mortgage Insurance Pty Limited - New Zealand Branch) (the 'Branch') on pages 4 to 21:

i. present fairly in all material respects the Branch's financial position as at 31 December 2022 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 December 2022;

— the statement of comprehensive income, statement of movements in the head office account and statement of cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Branch in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Other than in our capacity as auditor we have no relationship with, or interests in, the Branch.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the Shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Valuation of Gross Outstanding Claims Liability - NZ $33K *Refer to accounting policy in Note 4.1 Net claims written back, Note 4.2 Outstanding Claims, Note 4.6 Accounting estimates and judgements (including Actuarial assumptions and methods)*	
The valuation of gross outstanding claims liability is a key audit matter as it involves methodology and assumptions with inherent estimation uncertainty which can have significant impacts on the valuation. This estimation uncertainty requires us to exercise judgement when evaluating the methodology and assumptions adopted by the Branch. The valuation is also highly dependent on the integrity of the underlying data which drove significant audit effort. Examples of the data used includes loan originator, outstanding loan size, number of payments in arrears and loan-to-valuation ratio which is used to identify common characteristics to segment the stages of claim emergence when applying frequency and severity factors. The gross outstanding claims liability reflects the Branch's internal actuarial experts' assessment of future expected outcomes. These outcomes are influenced by a number of factors, including macroeconomic ones, which are subject to a wide range of views and interpretations. The valuation methodology requires the Branch to make assumptions in respect of these factors including: • the uncertainty in the timing of claim payments and recoveries; • the timing of receipt of information	Our procedures included: We assessed the appropriateness of the Branch's accounting policies against the requirements of the accounting standard and our understanding of the business and industry practice. Along with our IT specialists, we tested the significant data inputs (such as loan originator, outstanding loan size, number of payments in arrears and loan-to-valuation ratio) used in the valuation of gross outstanding claims liability including: • testing samples of underlying policy and claims data to external evidence (such as policy documents and bank transactions); • testing accounting and actuarial controls such as reconciliations of key data; and • testing controls on the interfacing of key IT systems that provide data used by the Branch's internal actuarial experts. Working with our actuarial specialists, we challenged the methodology and the assumptions used in the valuation, including the Branch's approach to segmenting the stages of claim emergency using common characteristics. We considered the work and findings of the Branch's internal actuarial experts, including their competency, objectivity, and scope of work. We considered the Branch's valuation methodology and assumptions for consistency between reporting periods, as well as for indicators of possible bias. We challenged the Branch's key assumptions by: • consideration of actual versus expected claims experience in relation to the number of delinquencies and the severity assumptions,

The key audit matter

from lenders indicating a delinquency or claim has occurred;
- property valuation estimates;
- outstanding loan estimates;
- past claims experience being an appropriate predictor of future experience;
- the frequency at which claims emerge, and the subsequent severity of those claims. Frequency and severity are likely to be influenced by changes in macroeconomic factors such as interest rates, unemployment rates, property prices, inflation and performance of industry ; and
- the ongoing impact of COVID-19 on future delinquencies and claim payments.

The assumptions adopted have a significant impact on the financial performance of the Branch, and therefore, are a focus of our audit attention. As a result, we involved senior audit team members, including specialists, who collectively understand the valuation methodology, the Branch's business, its industry and the economic and regulatory environment it operates in.

How the matter was addressed in our audit

together with the timing of payments of claims and recoveries using historical data to assess past claims as a predictor of future experience.
- evaluating macroeconomic assumptions including interest rates, inflation, unemployment rates, COVID-19 related government stimulus and property prices against external information sources. Specifically, we have considered the impact of recent trends in property prices, increased inflation, rising interest rates and the impact on the claims experience (including policies subject to deferral programs) and the relevant assumptions.
- identifying and analysing key changes in frequency and severity assumptions by comparing to experience exhibited to date.
- assessing the consistency of information, such as claims experience and trends across the Branch's operations

Unearned Premium Liability (NZ $0.5k) and Net Earned Premium (NZ $4K)

Refer to the accounting policy in Note 4.4 Unearned premiums and Note 4.6 Accounting estimates and judgements (including Actuarial assumptions and methods)

The Branch receives payment for its insurance policies upfront, however it is their policy to recognise this premium revenue over time. The timing pattern for recognition of premiums earned and the resulting valuation of the unearned premium liability (the proportion of the premium revenue not yet recognised), is determined by the Branch applying actuarial modelling techniques to develop an earnings curve, In this way, the timing of revenue recognition is dependent on the way in which claims are expected to emerge.

Net earned premiums and the unearned premium liability are a key audit matter due to the complexity of the actuarial methodology used to model the earnings curve and the significant level of judgment

Our procedures included:

We assessed the appropriateness of the Branch’s accounting policies against the requirements of the accounting standard and our understanding of the business and industry practice.

Along with our IT specialists, we tested the key controls designed and operated by the Branch over the valuation of unearned premium liability and net earned premium including:

- reliability of data used in the actuarial modelling processes in the valuation of the unearned premium liability; and
- interfacing of key IT systems that provide data used by the Branch’s internal actuarial experts.

With the assistance of our Actuarial specialists, we focused

The key audit matter	How the matter was addressed in our audit
applied in assessing the assumptions adopted. As the Branch ceased writing new business in 2011, the remaining unearned premium liability relates to policies written in 2011 and prior. As a result the complexities noted in the key audit matter on 'Valuation of Gross Outstanding Claims Liability' are also relevant to our work over the valuation of the net earned premium and unearned premium liability. The earnings pattern is estimated in a consistent manner to the expected future claims described above and therefore also have a high degree of estimation uncertainty. The assumptions adopted have a significant impact on the financial performance of the Branch. As a result, we involved senior audit team members, including specialists, who collectively understand the valuation methodology, the Branch's business and the economic and regulatory environment it operates in.	on the assumptions and valuation methodology used by the Branch in their assessment. We performed additional procedures to consider possible management bias. These included: • comparing the consistency between historical incurred claims experience with that implied by the earnings curve; • an assessment of sensitivity of the adopted earnings curve to more recent experience in key model assumptions; and • consideration of the impact of more recent experience, including impacts from economic factors and COVID-19 on the appropriateness of the earnings curve.

Other Information

The Directors, on behalf of the Branch, are responsible for the other information included in the Annual Financial Report. Other information includes the Director's Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Branch, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Julia Gunn

For and on behalf of

KPMG

KPMG
Sydney

24 February 2023