

Liberty Financial Group FY24 Half Year Results



26 February 2024

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Acknowledgement of Country

Liberty acknowledges the traditional owners of country throughout Australia. We acknowledge their continuing connections to the lands, waters, cultures and communities. We pay our respect to Elders past and present. In doing so we also acknowledge that sovereignty has never been ceded by the traditional owners of this country.



About the artwork

This design was created by proud Wamba Wamba man Keagan Mallia, a talented artist from Matakupaat (Swan Hill), now residing in Naarm (Melbourne).

"The artwork depicts Liberty in the centre, while the solid colours represent Liberty's different types of lending solutions. The outer meeting spots are First Nations people and businesses coming to Liberty for lending support, growing their businesses and being empowered to achieve their goals."

Presenting today

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James Boyle
Chief Executive Officer

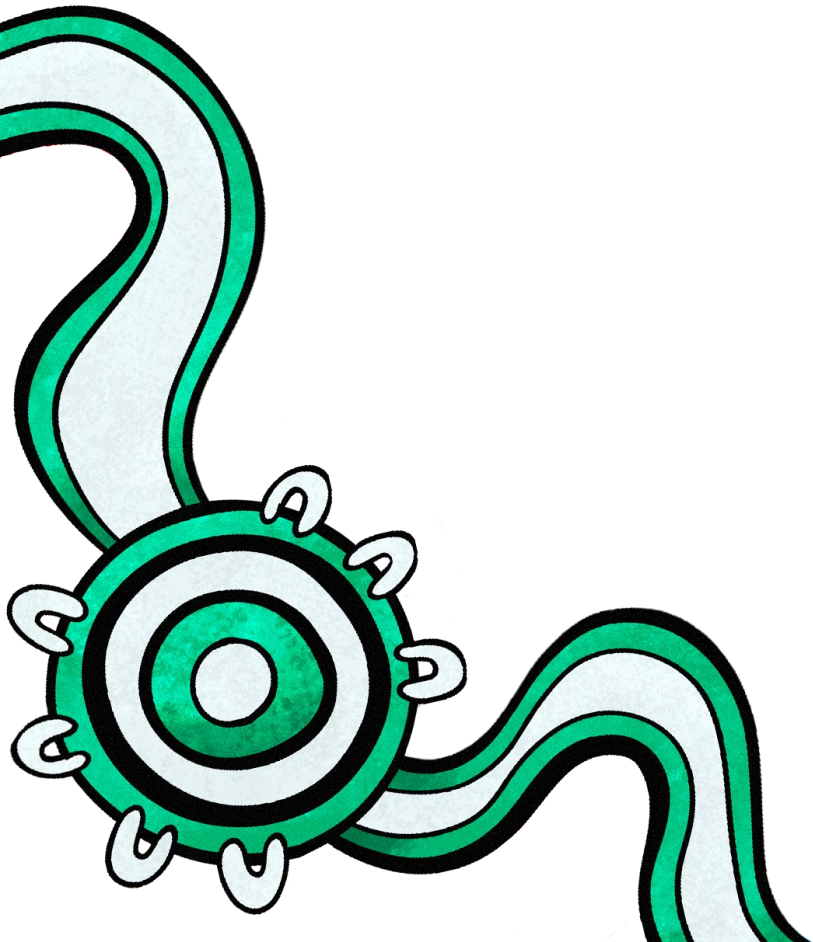


Peter Riedel
Chief Financial Officer

Agenda

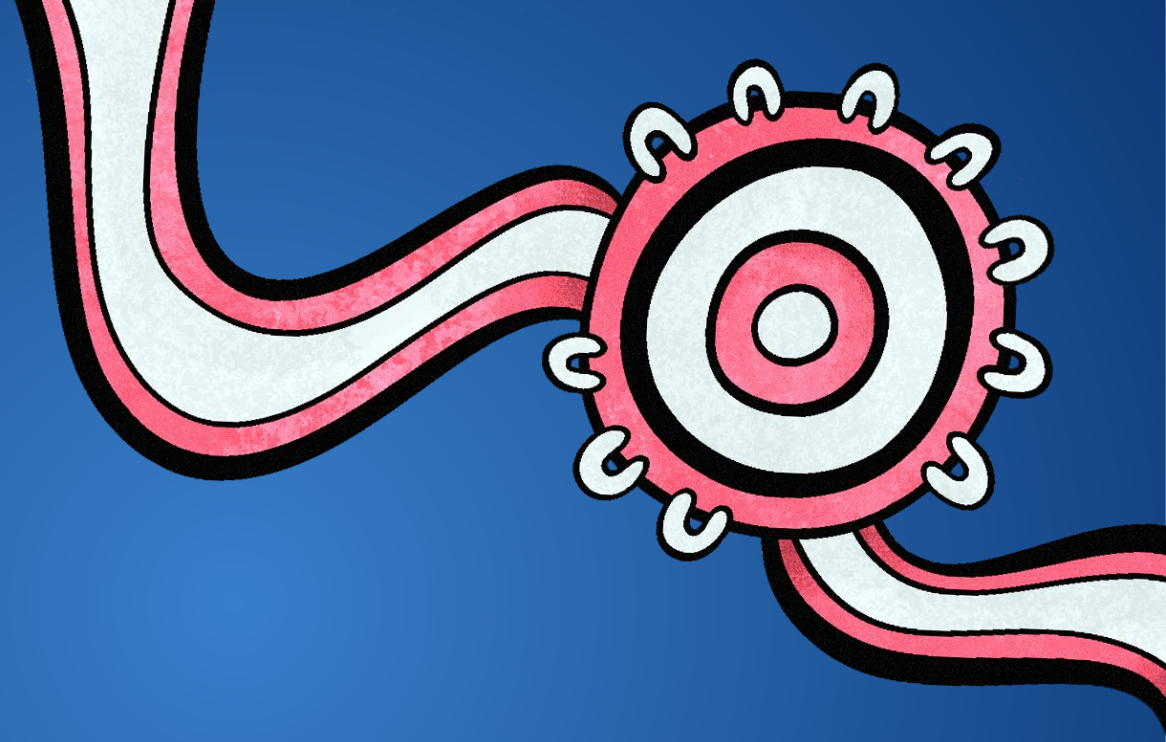
- 01** Overview
- 02** Results Analysis
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- 05** Summary
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01 Overview



Overview

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Sound performance underlying profit decline



NIM stable through 1H24



Continued portfolio growth through diversification



Strong balance sheet with 12% underlying cash ROE



Proactive arrears management resulting in low bad debts



Strong and stable broker and customer net promoter score



Continued investment in digital customer experience

Financial Highlights



Underlying NPATA

\$69.6m (\$104.9m)
(34%)



Net revenue

\$292.8m (\$301.4m)
(3%)



NIM

2.54% (2.88%)
(34bps)



BDD

12bps (2bps)
+10bps



Cost to income

28.7% (26.0%)
+270bps



Distribution

12c (21c)
(43%)

Operating Highlights



Average financial assets

\$13.8b (\$13.0b)
+6%



New assets originated

\$2.9b (\$2.9b)
+1%



Impaired loans

\$204m (\$135m)
+51%



Average FTE Staff

556 (537)
+4%



Broker NPS

77 (79)
(3%)

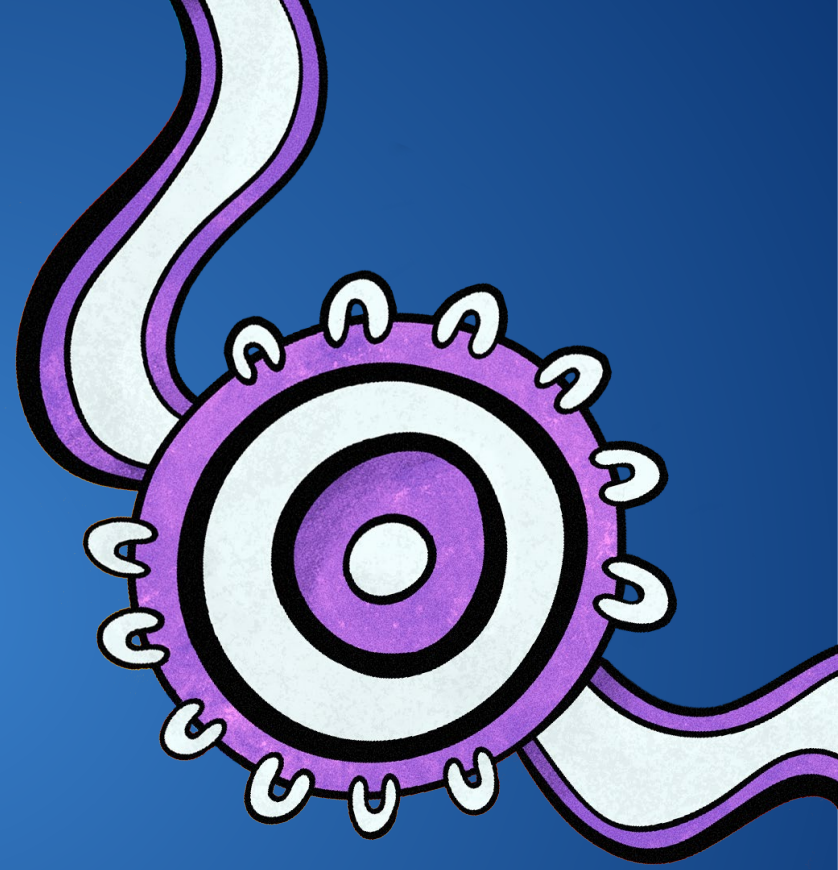


Customer NPS

58 (55)
+5%

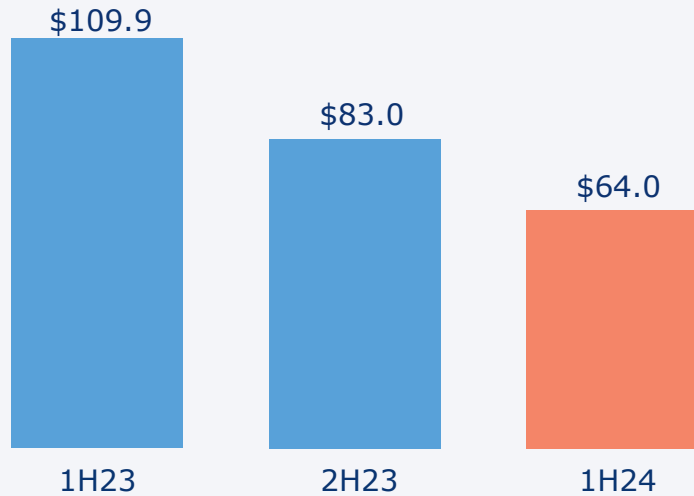
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02 Results Analysis



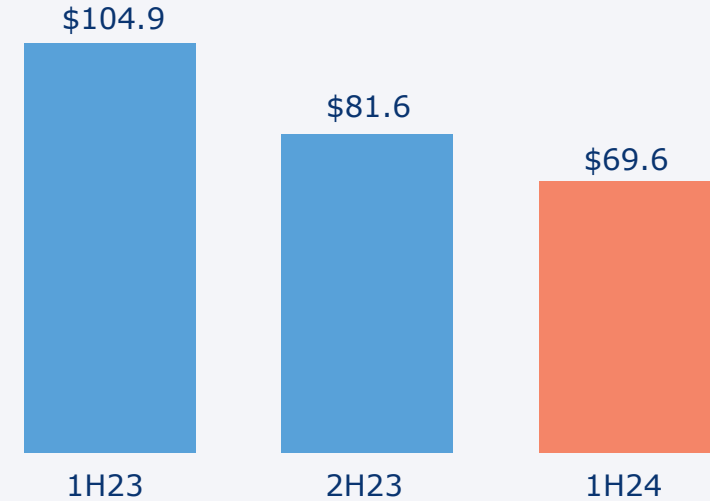
Profit Performance

Statutory NPATA (\$'m)



- ▲ Reduction in Underlying NPATA (1H24 v 1H23) explained by
 - Reduction in net interest margin to 2.54% (\$13m)
 - Higher loan impairment provisions reflecting asset shift to Secured and Financial Services (\$13m)
 - Lower net fee income as Secured segment originations increase (\$6m)
 - Higher underlying operating expenses (\$5m)
- ▲ Reduction in Underlying NPATA (1H24 v 2H23) explained by
 - Higher loan impairment provisions (\$2m)
 - Lower net fee income (\$7m)
 - Higher underlying operating expenses (\$4m)

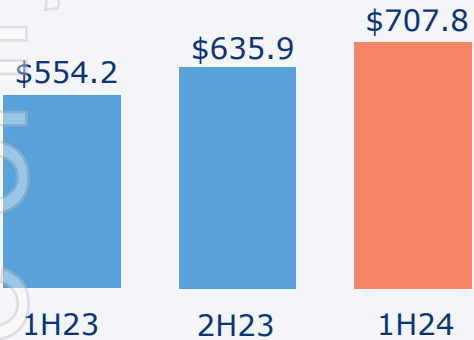
Underlying NPATA (\$m)



- ▲ Impact of moving to full ownership of ALI
 - 1H23: reduces underlying NPATA by \$5.0m
 - 2H23: reduces underlying NPATA by \$1.3m
- ▲ Impact of sale of MPRE
 - 1H23: reduces underlying NPATA by \$0.0m
 - 2H23: reduces underlying NPATA by \$0.1m
 - 1H24: increases underlying NPATA by \$5.6m

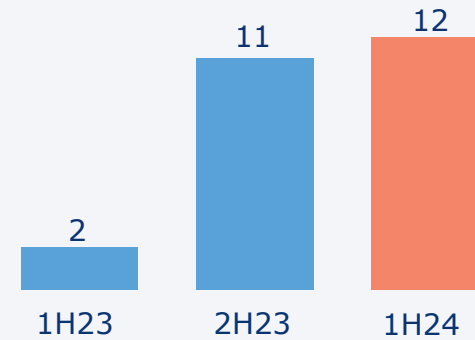
Profit Drivers

Total Revenue (\$'m)



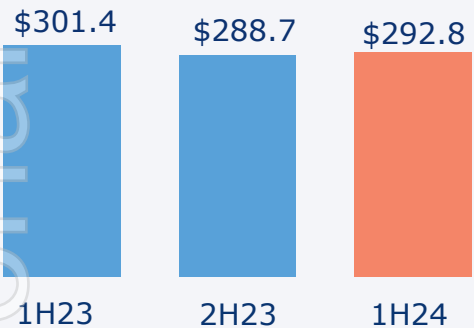
- ▲ Total revenue growth +28% (1H24 v 1H23) and +11% (1H24 v 2H23) driven by increased yield given RBA rate increases and higher average financial assets

Loan Impairment (bps)



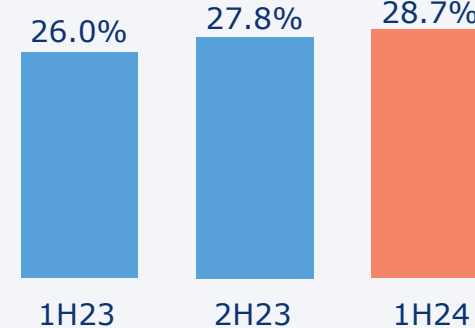
- ▲ Increase in specific provisions (5bp) and collective provision (7bp) to reflecting mix shift towards Secured and Financial Services assets
- ▲ Collective provision reflects life-time loss (higher than annual loss)

Net Revenue (\$'m)



- ▲ Net revenue -3% (1H24 v 1H23) as NIM reduction more than offsets growth in average financial assets
- ▲ Net revenue +1% (1H24 v 2H23) with stable NII and higher originations increasing Lending Income
- ▲ Stable NIM (2.54%) throughout 1H24

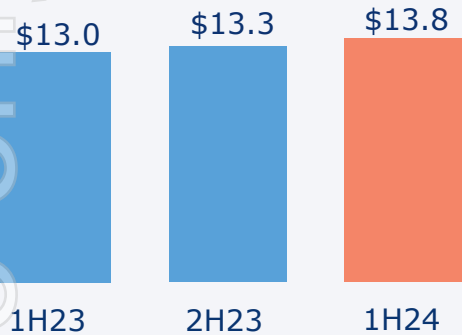
Cost to Income (%)



- ▲ CTI increase 1H24 v 1H23 driven by a combination of lower net revenue and higher personnel, marketing and technology expenses to support business growth
- ▲ CTI increase 1H24 v 2H23 driven higher marketing and technology expenses to support business growth

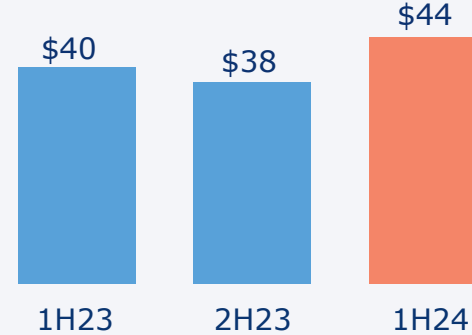
Revenue

Average Assets (\$'b)



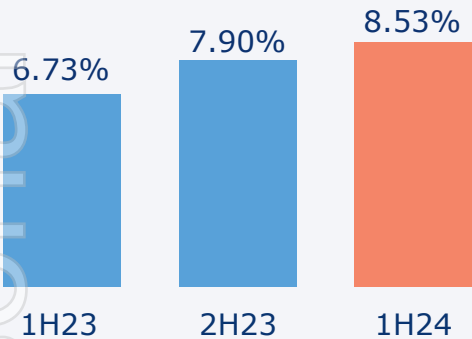
- ▲ Average asset growth 6% (1H24 v 1H23) and 3% (1H24 v 2H23) driven by Secured and Financial Services segments
- ▲ Record new originations \$2.9b (v \$2.6b 2H23 and \$2.9b 1H23)
- ▲ Loan discharges and prepayments improving but continue to influence Residential portfolio growth

Lending Income (\$'m)



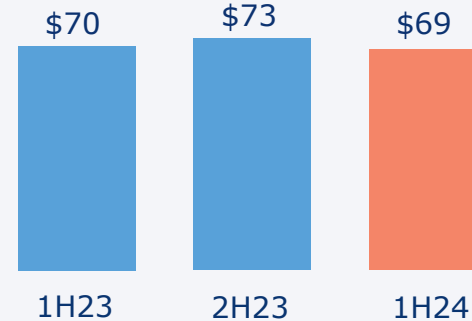
- ▲ Movement in lending income between periods largely consistent with movement in new loan origination volume

Yield (%)



- ▲ Increase in yield to 8.53% (1H24) from 7.90% (2H23) due to
 - Passed on only RBA cash rate increases to existing customers (+63bps)
 - Origination and discharge yield versus portfolio yield (-7bps)
 - Asset mix benefit towards higher yielding Secured and Financial Services segments (+7bps)

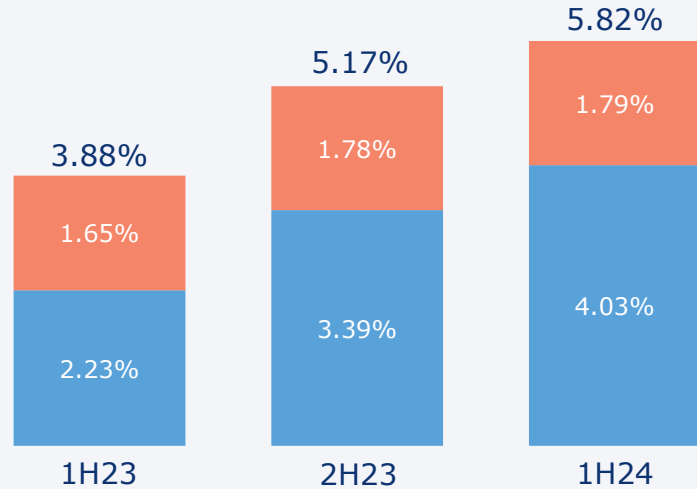
Commission Income (\$'m)



- ▲ Movement reflects transaction volumes in Australian and NZ distribution businesses

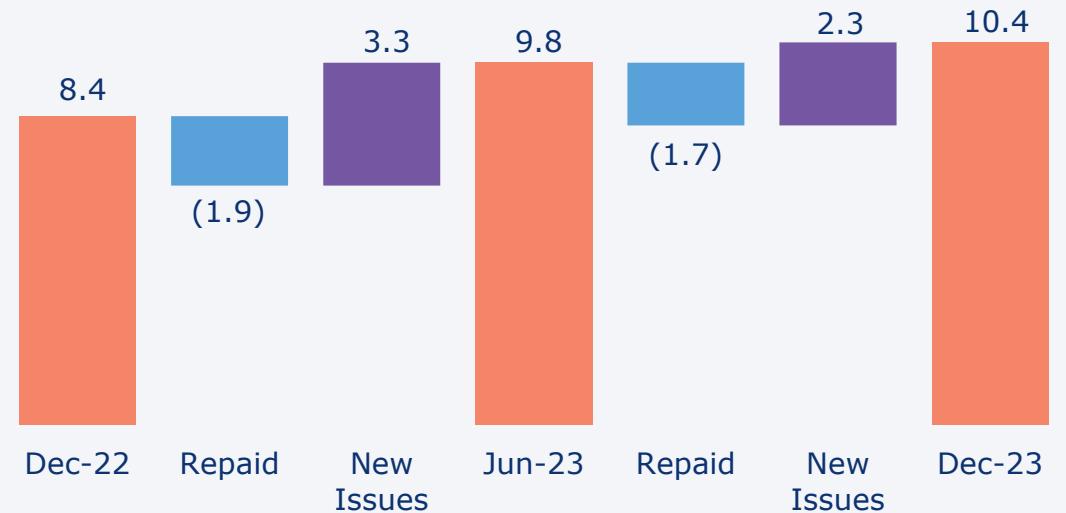
Funding

Cost of Funding



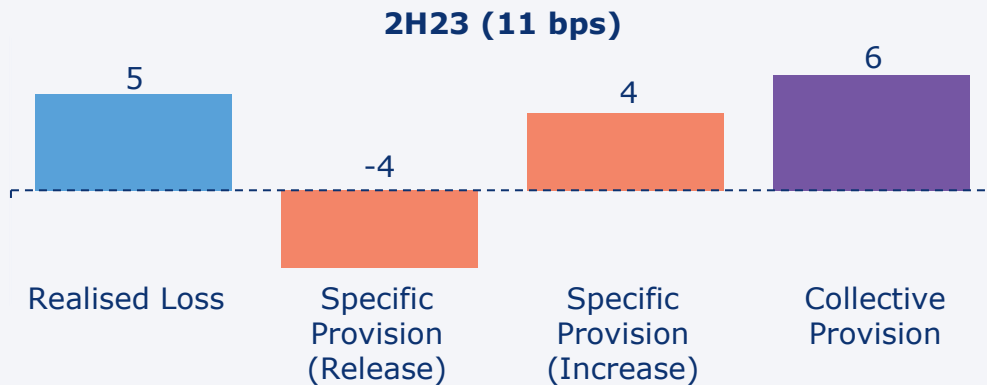
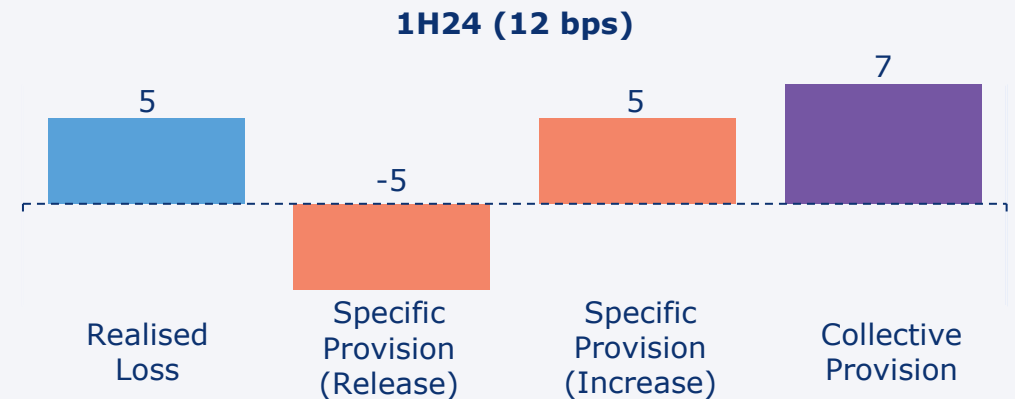
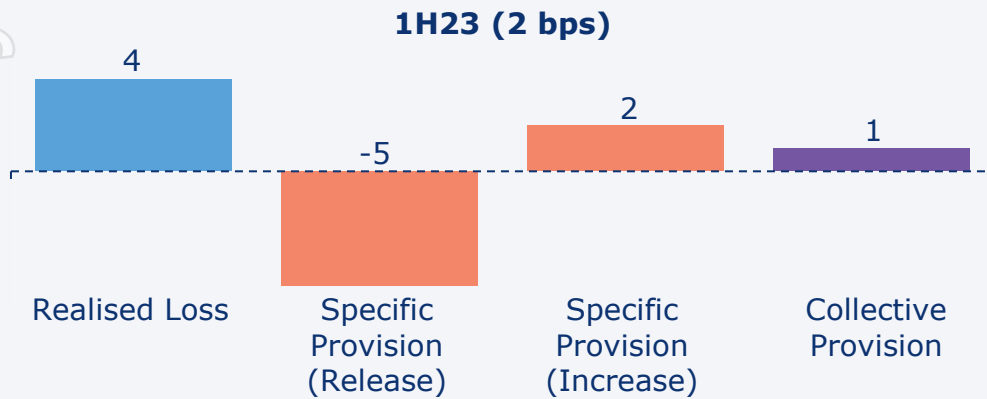
- ▲ Average funding benchmark cost 403bps in 1H24 (increase of 64bps v 2H23) from RBA cash rate increases
- ▲ Average funding margin 179bps in 1H24 (increase 1bps from 2H23) as margins on new funding consistent with average liability margin at 30-Jun-23

Term Funding (\$b)



- ▲ 1H24 term issuance (\$2.3b) supporting Residential and Secured asset growth
- ▲ Established new auto wholesale facility in 1H24 (\$500m)
- ▲ Feb-24 MTN maturity (\$250m) to be funded from balance sheet resources with new MTN issue planned in Mar-24 subject to market conditions

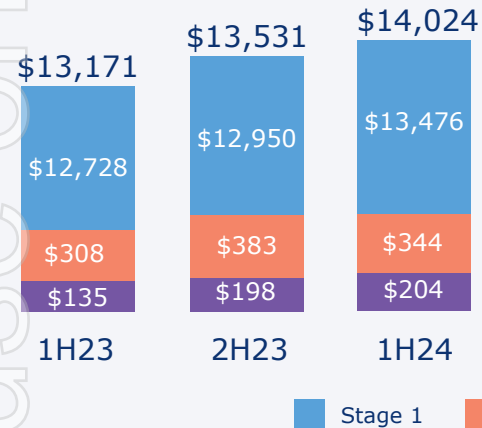
Loan Impairment



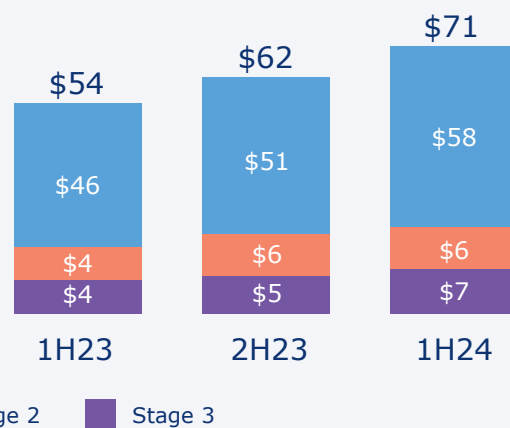
- ▲ Impairment expense 12bps in 1H24 demonstrating:
 - Stable realised losses and specific provision release each period
 - Higher specific and collective provisions reflecting mix shift towards Secured and Financial Services segments
 - Stable future expected losses by segment reflecting stable customer and portfolio loss attributes

Loss Provisions

Portfolio by Stage (\$m)

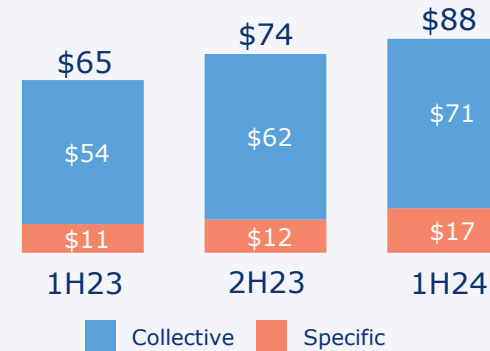


Collective Provision by Stage (\$m)



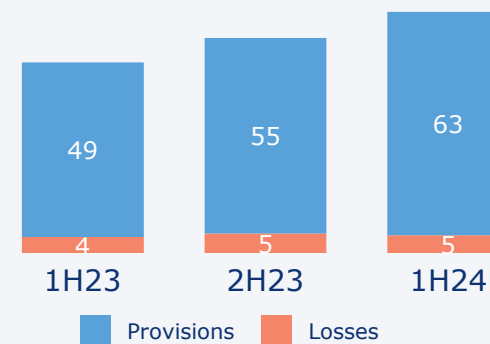
- ▲ Increase in Stage 2 and Stage 3 balances reflect higher number of customers seeking repayment variations
- ▲ Customers seeking support has reduced in 1H24 as interest rates stabilise
- ▲ 55% of customers (by balance) in Stage 3 making active payments at 87% of contract amount

Provisions by Nature (\$'m)



- ▲ Increase in specific and collective provisions reflecting mix shift towards Secured and Financial Services segments

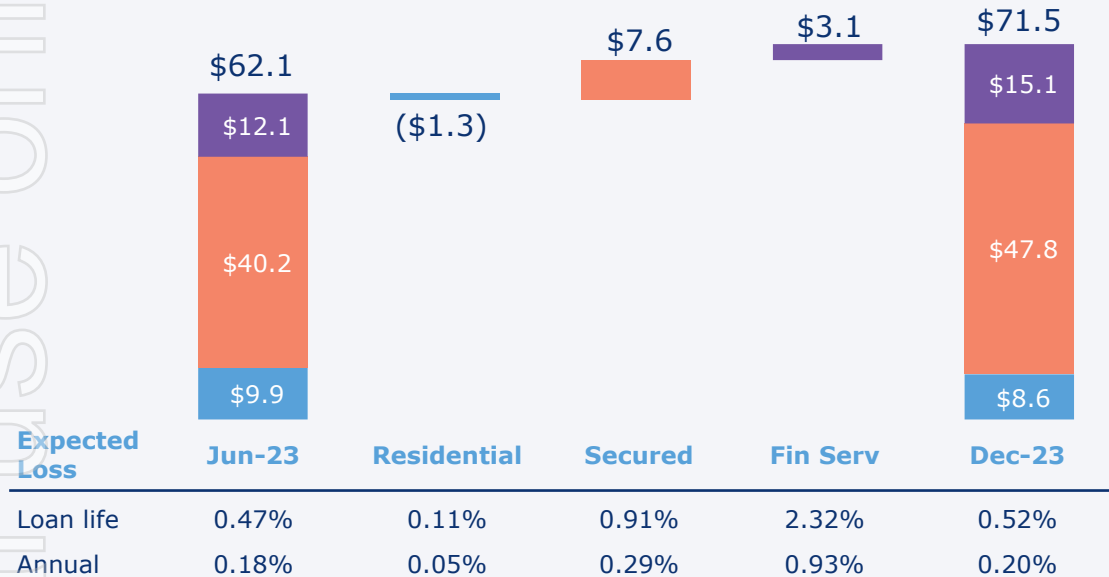
Provision Coverage (bps)



- ▲ Total provisions at 1H24 (63bps) provide 6 times coverage against annualised 1H24 realised losses (10bps)
- ▲ Total provisions at 1H24 (\$88m) provide 43% coverage against Stage 3 balances (37% in 2H23)

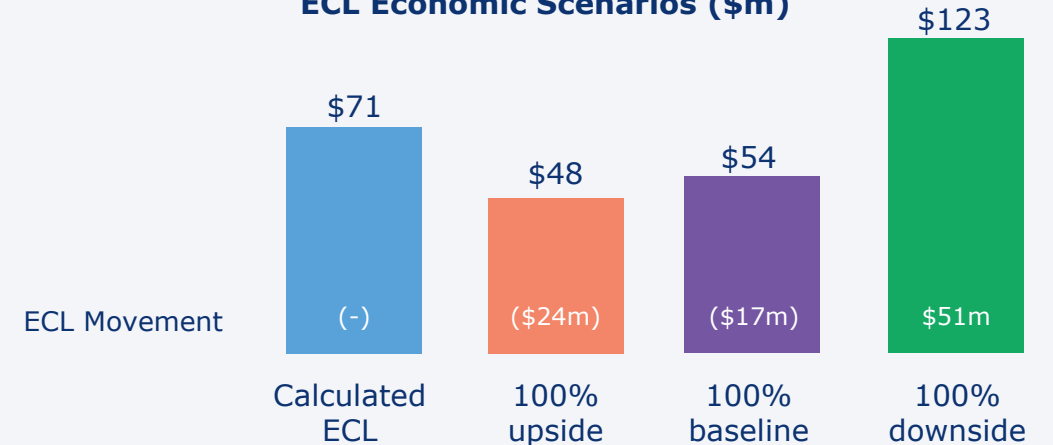
Expected Credit Loss

ECL by Segment



- ▲ Reduction in AU Residential from lower portfolio and reduction in NZ Residential from lower expected loss
- ▲ Increase in Secured largely from higher portfolio with 1bps increase in expected loss
- ▲ Increase in Financial Services from higher portfolio (stable expected loss)

ECL Economic Scenarios (\$m)



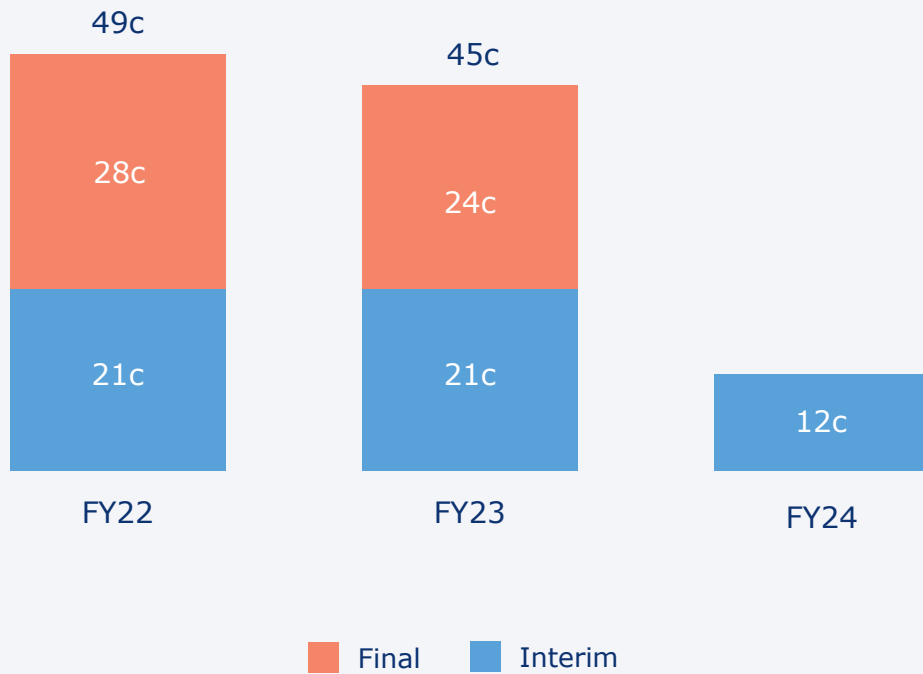
Economic Scenarios (Aust)	Upside	Baseline	Downside
Probability weighting (Jun-23)	5% (5%)	70% (70%)	25% (25%)
Unemployment	4.3%	4.5%	5.4%
GDP	2.6%	1.8%	0.4%
Property Prices (HVI*)	199	193	187
RBA Cash Rate	3.4%	3.7%	5.5%

Operating Expenses

Operating expenses (\$m)	1H23	2H23	1H24
Personnel	44	47	47
Other	34	33	37
Cash expenses	78	80	84
IP amortisation	6	6	6
Total expenses	84	86	90
Cost to income (Liberty)	26.0%	27.8%	28.7%
Cost to income (market)	41.5%	45.7%	47.8%
FTE (average #)	537	544	556

- ▲ Lower net revenue contributed to the increase in cost to income 1H24 v 1H23
- ▲ Personnel cost 1H24 v 1H23 reflects wage inflation and FTE increase to 558 (from 550) to support growth
- ▲ Higher other expenses 1H24 v 1H23 and 2H23 reflects marketing and technology investments to drive continued business growth

Distribution



- ▲ Interim distribution 12 cents paid in Dec-23 for 5-month earnings period to Nov-23
- ▲ Implied annualised yield of 7% based on security price of \$4.05 (29-Dec-23)
- ▲ Final distribution for 7-month earnings period to 30-Jun-24 expected to be paid end of Aug-24
- ▲ FY24 payout ratio expected to be around the midpoint of the policy range (40-80% NPAT)

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Financial Position

\$m	Jun-23	Dec-23
Cash	1,342	990
Financial assets	13,535	14,031
Loans to related parties	122	127
Other assets	693	599
Financing	(14,082)	(14,220)
Other liabilities	(440)	(358)
Net assets	1,170	1,170
Leverage ratio	13.4	13.5

- ▲ Strong liquidity position with aggregate total (\$7.5b) and available (\$3.7b) limits at 31-Dec-23 considering LTM originations (\$5.5b)
- ▲ Reduction in cash due to pre-funding RMBS & ABS at 30-June-23 (\$425m) utilised in July
- ▲ Stable balance sheet and leverage
- ▲ Annualised underlying cash ROE 12%
- ▲ Investment grade rating BBB- (positive outlook) affirmed by Standard and Poors (Risk Adjusted Capital Ratio 15.7%)

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03 Business Update



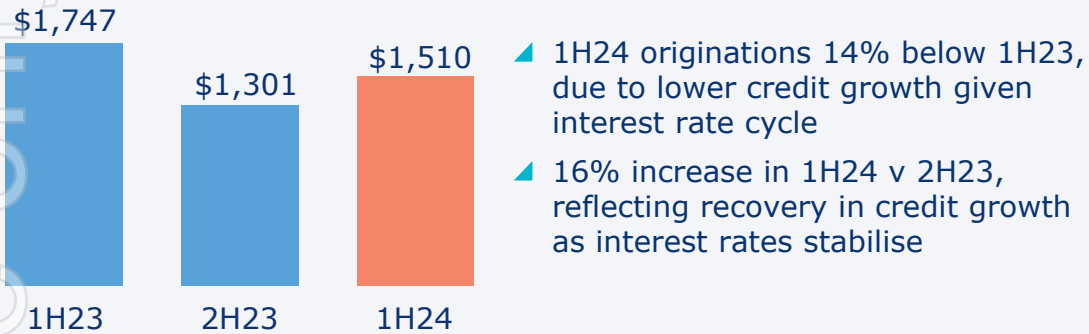
Business Update

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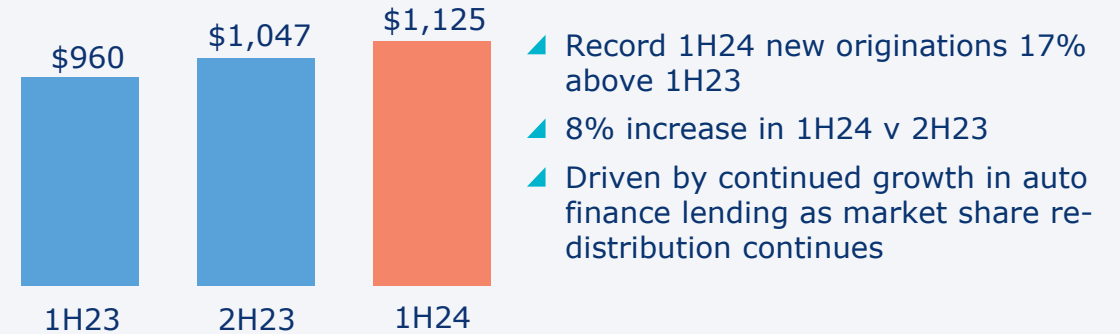
-  Higher group originations with continued portfolio growth
-  Residential originations recovering and discharges slowing
-  Continued growth in SME and SMSF lending
-  Auto momentum supported by new distribution partnerships
-  Fin Services benefitting from continued growth in PL lending
-  Continued ongoing effective management of arrears

Segment Loan Origination

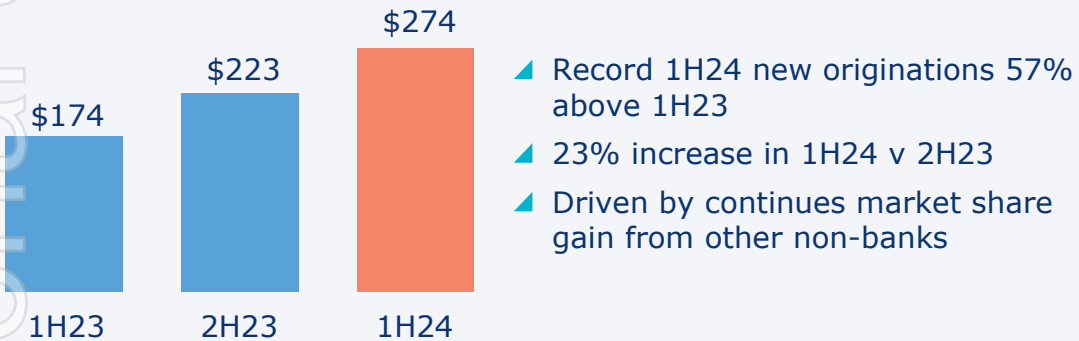
Residential (\$'m)



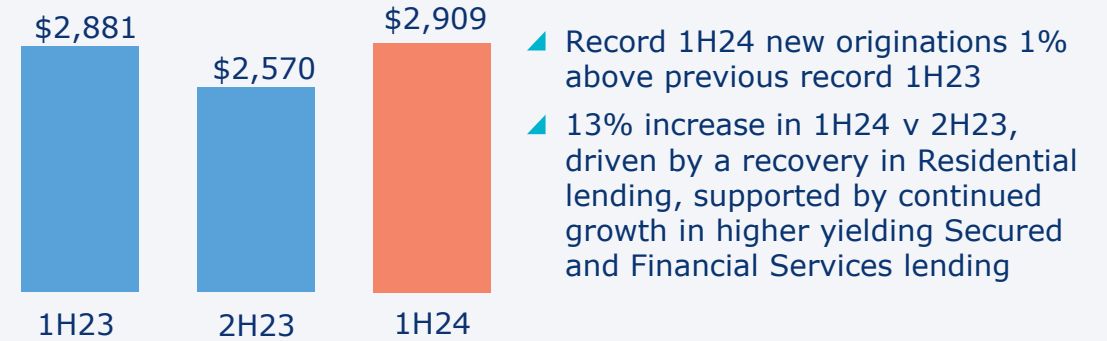
Secured (\$'m)



Fin Services (\$'m)

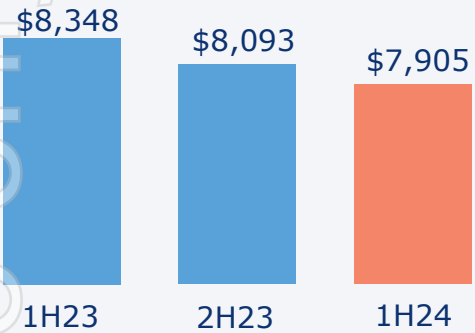


Group (\$'m)



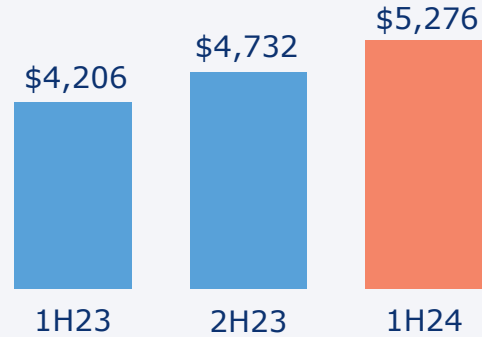
Segment Loan Portfolio

Residential (\$'m)



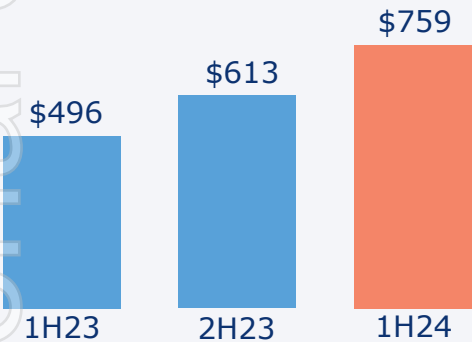
- Portfolio growth continues to be impacted by higher than trend discharges and amortisation, although the trend is improving

Secured (\$'m)



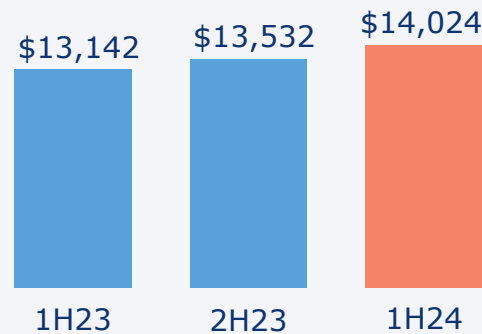
- Continued growth in Secured loan portfolio driven by growth in auto finance lending, with steady discharges and amortisation

Fin Services (\$'m)



- Continued growth in personal loan portfolio

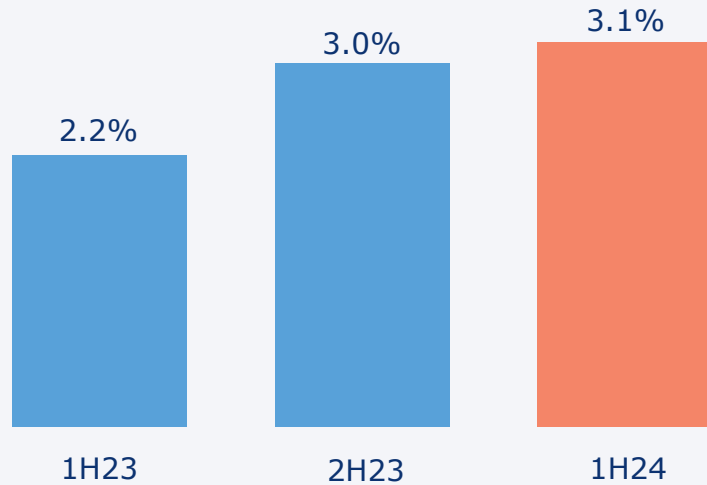
Group (\$'m)



- 4% portfolio growth in 1H24 v 2H23
- Portfolio mix continues to move toward higher yielding Secured and Financial Services assets

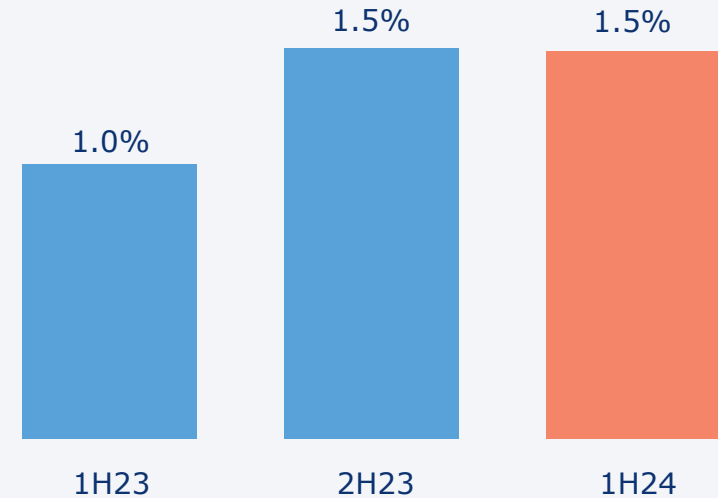
Portfolio Risk

+30 Day Delinquency



- ▲ Early-stage delinquency higher 1H24 v 1H23 driven by higher number of customers seeking repayment variations
- ▲ Stabilisation in delinquency between 2H23 and 1H24 as customers adapt to a higher interest rate environment

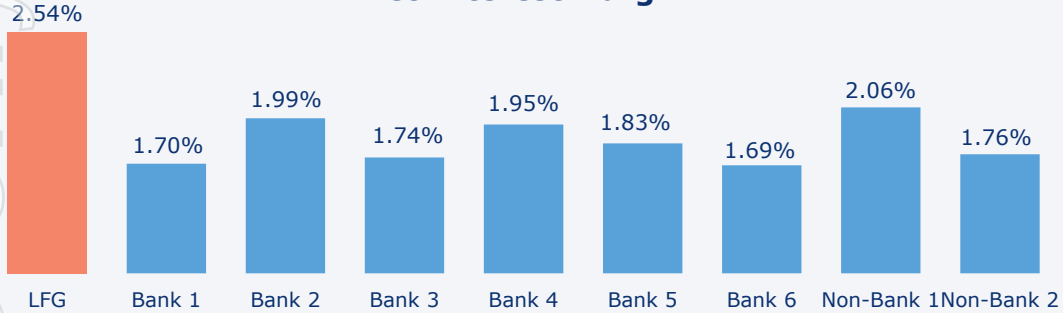
+90 Day Delinquency



- ▲ Customers in repayment variation has stabilised
- ▲ Longer-dated delinquency showing early signs of improvement although risk remains

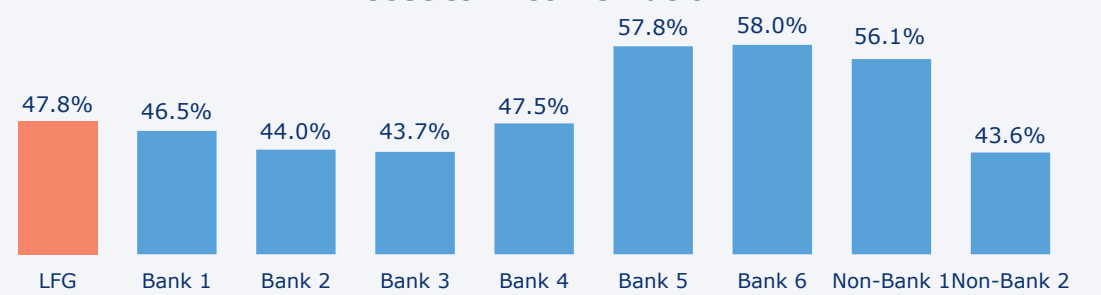
Relative Value Drivers

Net Interest Margin



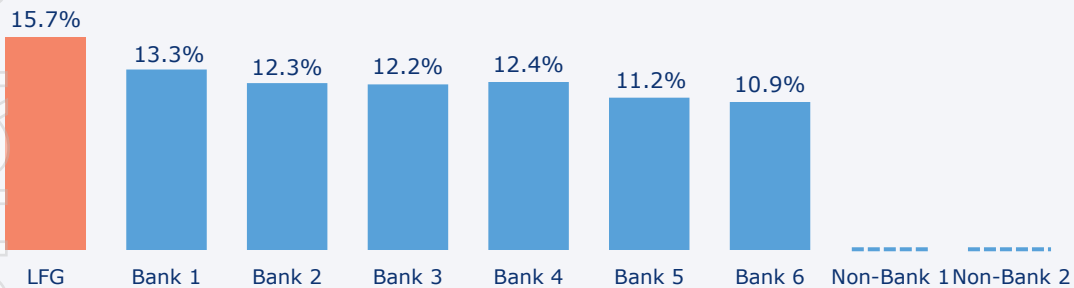
▲ Industry leading net interest margin

Cost to Income Ratio



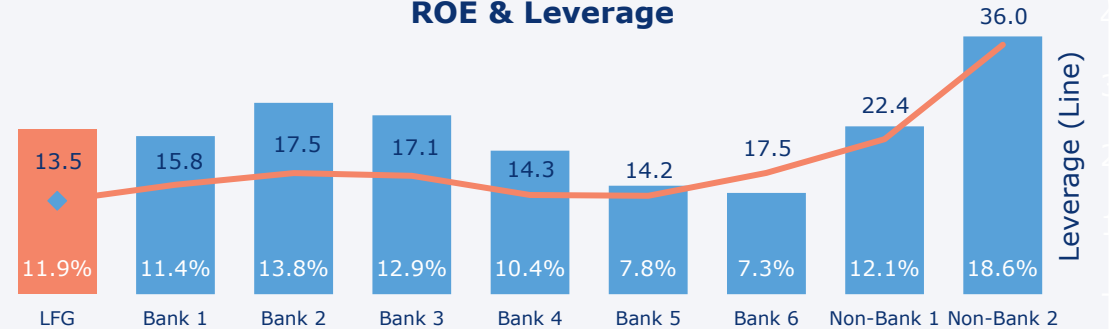
▲ Efficient cost management

Tier 1 Capital Ratio



▲ Bank-like capital strength

ROE & Leverage

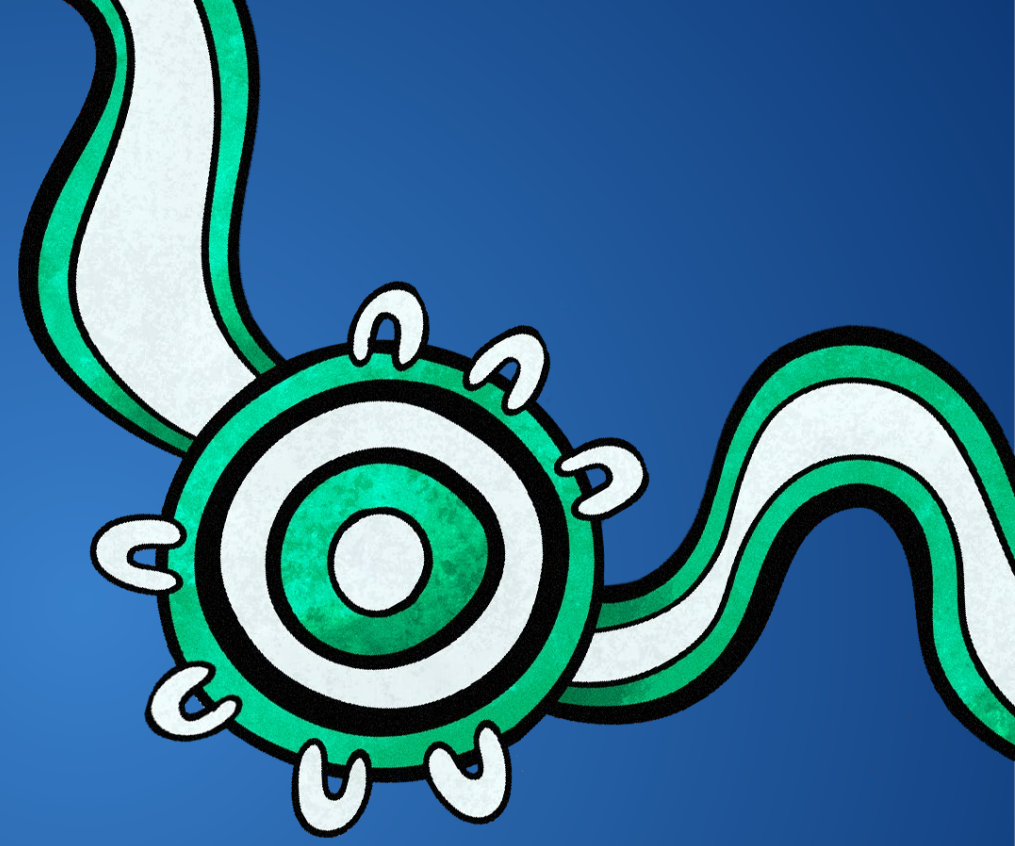


▲ Highest ROE to Leverage ratio

Results represent: LFG:1H24; Banks:FY23 or 1H24; Non-Banks:30-Jun-23
 Tier 1 Capital Ratio represent: LFG=S&P RAC Ratio; Others APRA Tier 1 Ratio

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04 Outlook



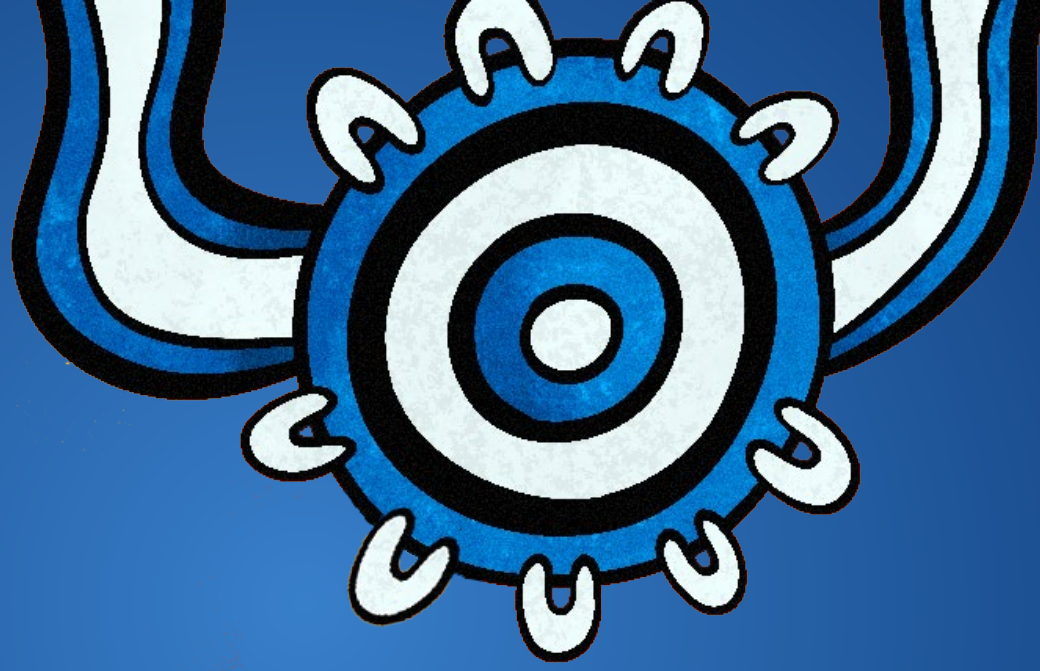
Outlook

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-  Economic indicators support improving credit demand
-  Refinance activity stabilising
-  Increasing provisions from change in asset mix
-  NIM stable as funding cost return to longer term average
-  Inflationary pressure impacting operating expenses
-  Customers seeking improved digital experiences

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05 Summary



Summary

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-  Diverse customer solutions driving portfolio growth
-  Leading peer NIM delivering peer leading return on assets
-  Sound underlying performance
-  Strong liquidity and capital position to support growth
-  Continuing investment in diversifying customer solutions
-  Ongoing investment in digital customer solutions

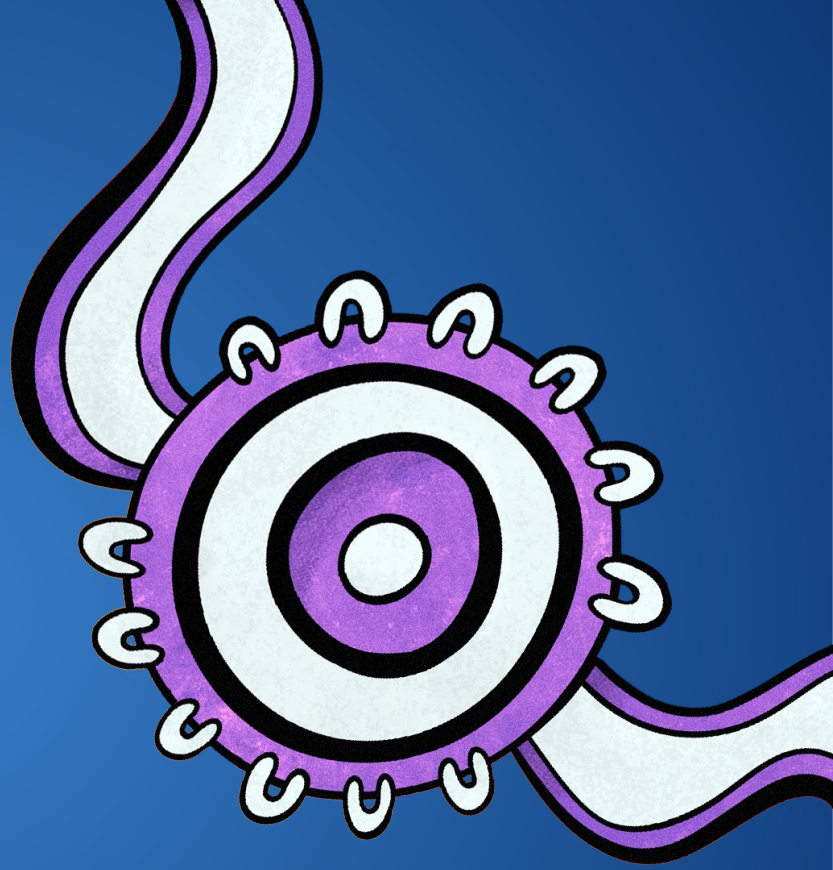
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06 Questions



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Appendix



Who is LFG?

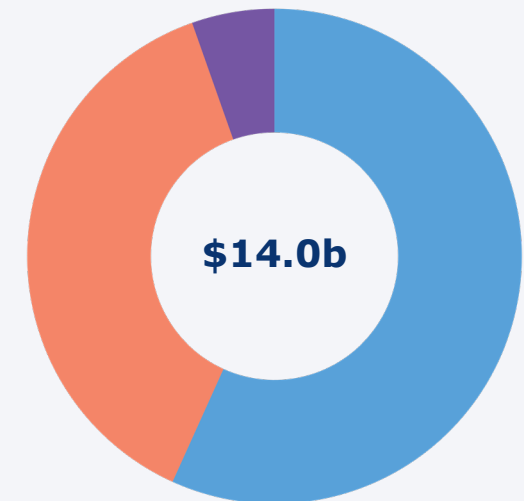
Liberty Financial

- ▲ Started 1997 and only investment grade non-bank (BBB-/positive/A-3)
- ▲ Pioneered specialty finance industry in Australia and New Zealand
- ▲ Over 550 professionals, Melbourne head office
- ▲ Operates through three key segments: Residential Finance, Secured Finance and Financial Services

Durable Business Model

- ▲ Advanced risk-management capabilities
- ▲ Proprietary technology supports operations
- ▲ STRONG S&P Servicer rating across all asset classes
- ▲ Diversified products, services, revenues and profits
- ▲ Unblemished capital markets track record

Diversified Portfolio



- Residential - 57%
- Secured - 38%
- Financial Services - 5%

Products and Services

Residential Finance

Australian mortgages

- Prime and custom lending for residential owner occupier and investment properties



New Zealand mortgages

- Prime and custom lending for residential owner occupier and investment properties

Secured Finance

Motor finance

- Secured prime and custom lending for vehicles purchased privately and through dealerships in Australia



Commercial finance

- Secured commercial property mortgages to SMEs and SMSFs for working capital, owner occupier loans and investment loans in Australia

Lending activities

Insurance underwriting

Loan and insurance distribution

Investments

Financial Services

Personal loans

- Personal loans in Australia

MONEYPLACE

SME loans

- SME loans in Australia



General insurance underwriting and distribution

- Underwriter and distribution of LPI and VEI, distributor of home and contents and car insurance in Australia



Life insurance distribution

- Distributor of life insurance in Australia



Broker network and aggregators

- Mortgage broker distributing loans and insurance products in Australia and New Zealand



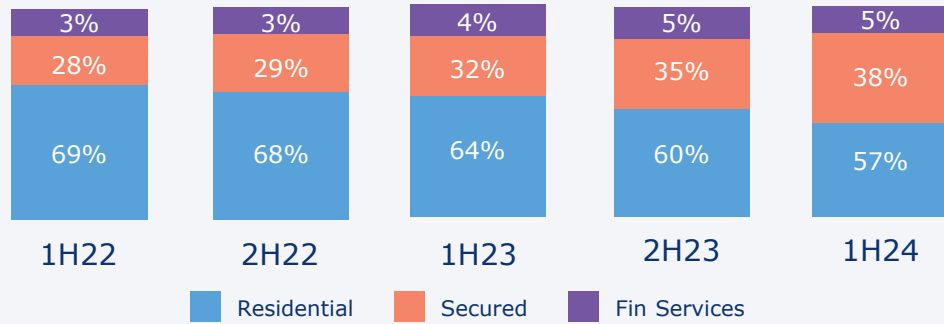
Investments

- Debenture and management investment scheme products for short and long-term investing in Australia and New Zealand

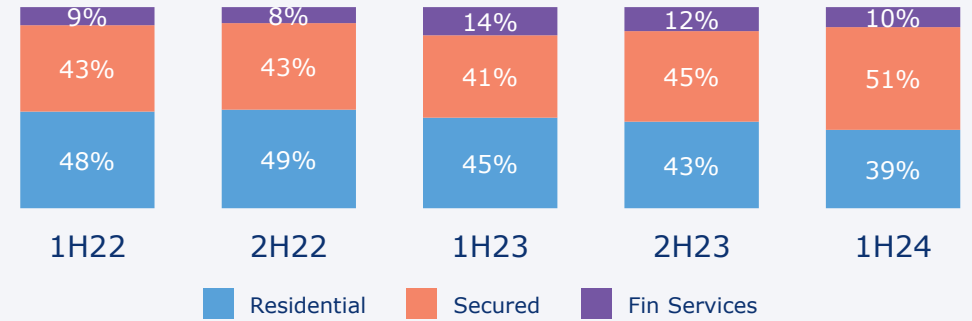


Segment Performance

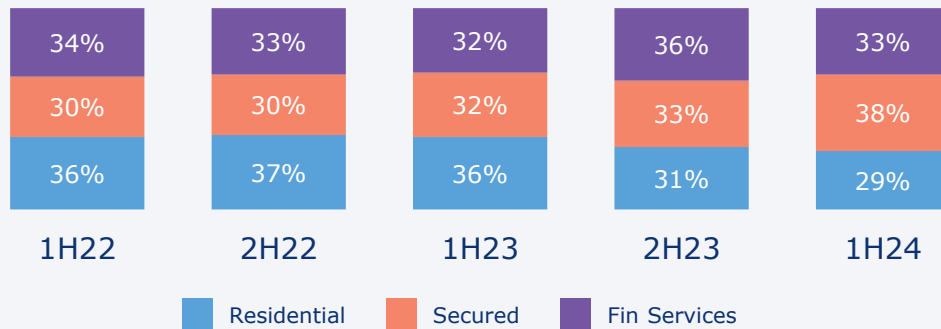
Closing Portfolio



Net Contribution



Net Revenue



- Relative segment portfolio mix continues trajectory toward Secured and Financial Services
- Higher yielding Secured and Financial Services assets generate higher relative contribution to Group net revenue and contribution

Reconciliation Statutory to Underlying

\$m	1H23	2H23	1H24
Statutory NPAT	104.0	77.1	58.1
IP amortisation	5.9	5.9	5.9
Statutory NPATA	109.9	83.0	64.0
MPRE sale-related adjustments			
Commission income	(10.0)	(9.4)	(12.1)
Commission expense	8.0	7.6	9.7
Personnel costs	0.9	0.6	0.6
Other expenses – operating expenses	1.1	1.0	1.2
Other expenses - impairment of goodwill	-	-	6.0
ALI acquisition-related adjustments			
Commission income	(23.1)	-	-
Commission expense	7.5	-	-
Other expenses - contingent consideration	9.9	-	-
Tax cost base reset benefit	(4.0)	(1.3)	-
Tax effect of adjustments	4.7	0.1	0.2
Total adjustments	(5.0)	(1.4)	5.6
Underlying NPATA	104.9	81.6	69.6

\$m	1H23	2H23	1H24
Statutory NPAT	104.0	77.1	58.1
IP amortisation	5.9	5.9	5.9
Statutory NPATA	109.9	83.0	64.0
Commission income	(33.1)	(9.4)	(12.1)
Commission expense	15.5	7.6	9.7
Personnel costs	0.9	0.6	0.6
Other expenses – operating expenses	1.1	1.0	1.2
Other expenses - impairment of goodwill	-	-	6.0
Other expenses - contingent consideration	9.9	-	-
Total adjustments	(5.7)	(0.2)	5.4
Tax effect of adjustments	4.7	0.1	0.2
Tax cost base reset benefit	(4.0)	(1.3)	-
Underlying NPATA	104.9	81.6	69.6

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