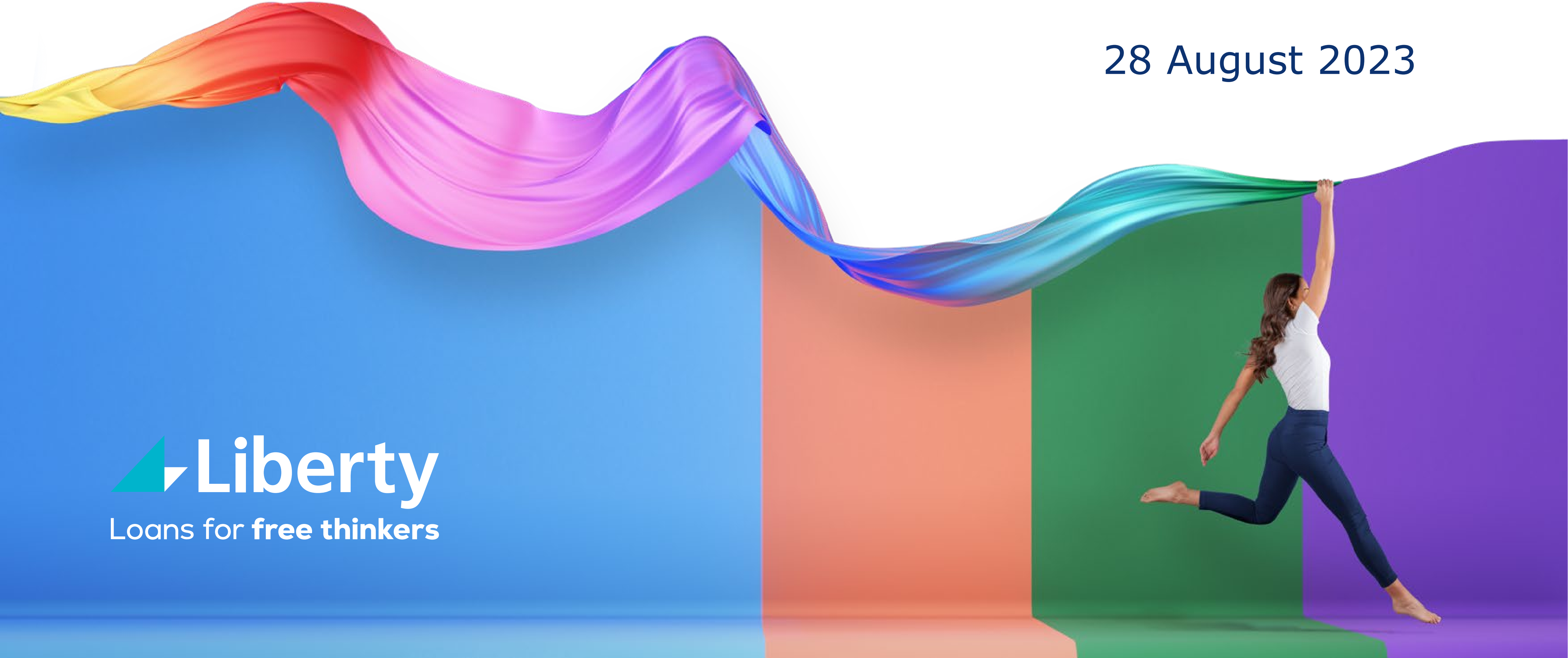
Liberty Financial Group FY23 Full Year Results

28 August 2023



Liberty

Loans for **free thinkers**

Presenting Today

James Boyle
Chief Executive Officer

Peter Riedel
Chief Financial Officer

Agenda

01 Highlights

Highlights

- Continued portfolio growth through diversification
- Lower NIM as cost of funds increase while maintaining yield
- Sound underlying performance with increased provisions
- Strong balance sheet with 15% underlying ROE
- Expected increase in arrears being effectively managed
- Continued improvement in prompted brand awareness
- Improved ESG measures

Financial Highlights

Underlying NPATA
$187m ($231m)
(19%)

Net revenue
$610m ($635m)
(4%)

NIM
2.76% (3.08%)
(32bps)

BDD
13bps (0bps)
+13bps

Cost to income
26.6% (22.7%)
+390bps

Distribution
45bps (49bps)
(8%)

*Balances represent: FY23 (FY22) change between the periods

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Operating Highlights

Average financial assets
$13.2b ($12.6b)
+5%

New assets originated
$5.4b ($5.6b)
(2%)

Impaired loans
$198m ($152m)
+31%

FTE Staff
546 (524)
+4%

Broker NPS
82 (81)
+1%

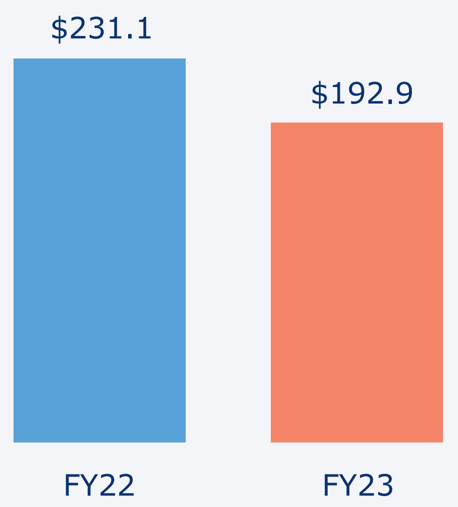
Customer NPS
59 (64)
(8%)

*Balances represent: FY23 (FY22) change between the periods

02 Results Analysis

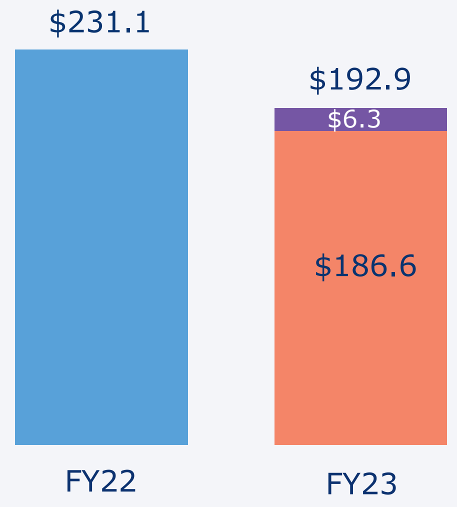
Profit Performance

Statutory NPATA ($m)



- Reduction in statutory NPATA (FY23 v FY22) due to:
  - Lower net interest margin to 2.76% (from 3.08% in FY22)
  - Higher non-cash collective provision ($9.3m) reflecting shift in asset mix to higher yielding Secured and Financial Services assets
  - Partially offset by one-time impact of ALI acquisition ($6.3m)

Underlying NPATA ($m)



- One-time impact of moving to full ownership of ALI explains difference in FY23 statutory and underlying NPATA:
  - Net commission income ($15.6m income)
  - Contingent consideration ($9.9m expense)
  - Tax impact of the adjustments ($0.6m income)

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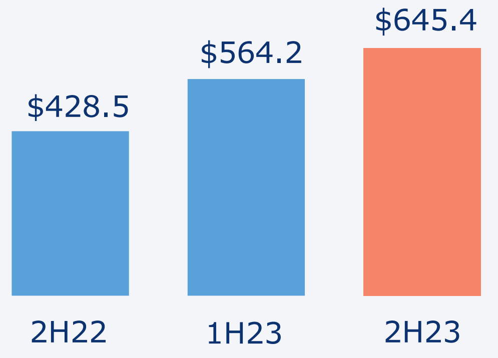
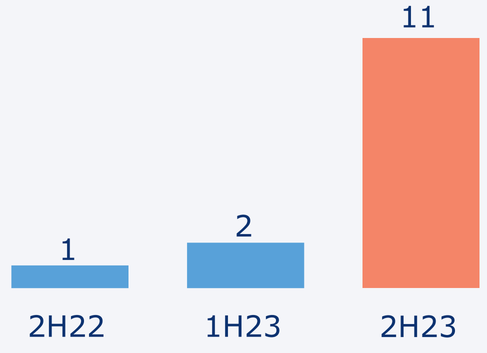
Profit Drivers

Total Revenue ($m)



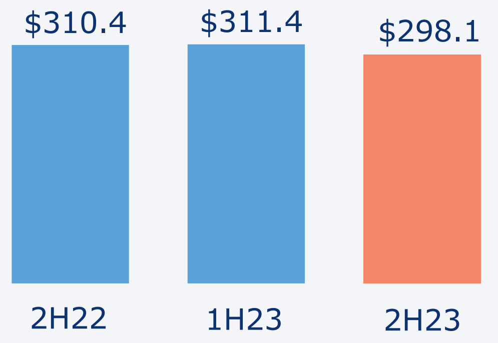
- Total revenue growth +51% (2H23 v 2H22) and +14% (2H23 v 1H23) driven by increased yield given RBA rate increases and higher average financial assets

BDD (bps)



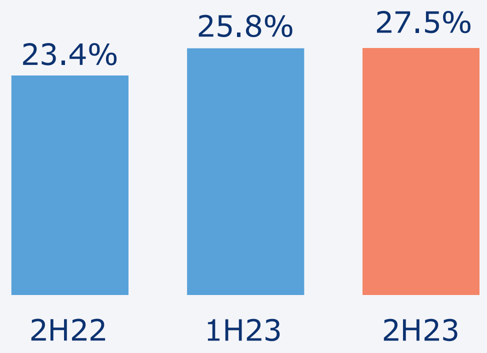
- Increase in impaired loans driving higher specific provisions (4bp)
- Increase in collective provision (6bp) to reflect mix shift towards Secured and Financial Services assets
- Collective provision reflects life-time loss (higher than annual loss)

Net Revenue ($m)



- Net revenue -4% (2H23 v 1H23) and -4% (2H23 v 2H22) as NIM reduction more than offsets growth in average financial assets
- NIM 2H23 (2.65%) lower than FY23 (2.76%) from higher cost of funding
- Exit NIM 2.56% as higher cost of funding persists

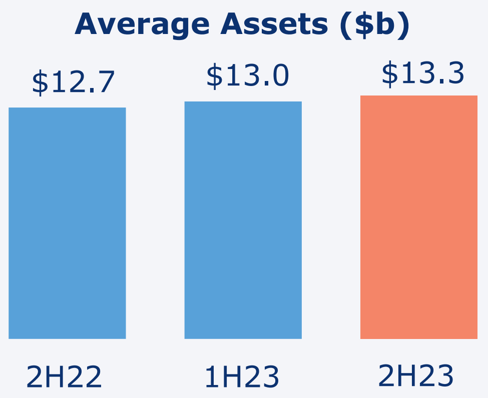
Cost to Income (%)



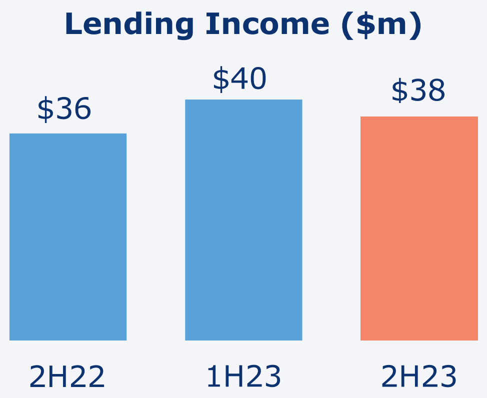
- Operating costs stable 2H23 v 1H23 with CTI increase largely driven by lower net revenue
- CTI increase 2H23 v 2H22 driven by a combination of lower net revenue and higher personnel, marketing and technology expenses to support business growth

*Net Revenue=Total Revenue less Interest Expense

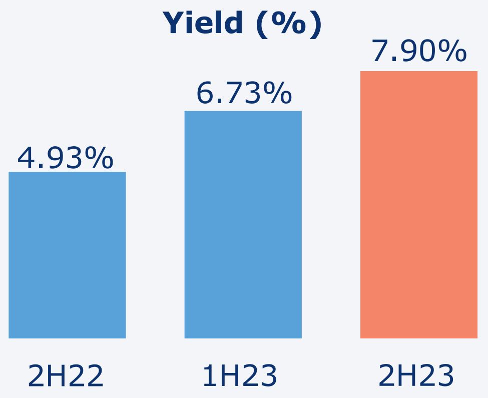
Revenue



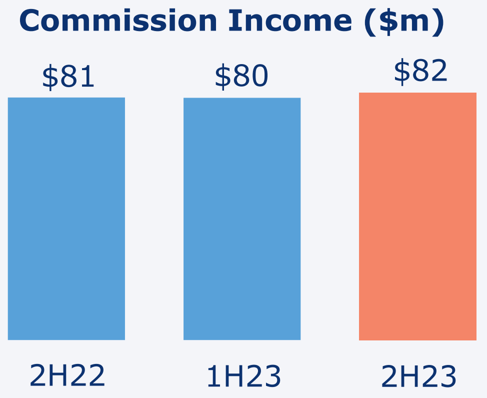
- Average asset growth 5% (2H23 v 2H22) and 2% (2H23 v 1H23) driven by Secured and Financial Services segments
- New originations $2.6b (v $2.9b 1H23 and $2.7b 2H22)
- Loan discharges and prepayments improving but continue to influence Residential portfolio growth



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



- Increase in yield to 7.90% (2H23) from 6.73% (1H23) due to
  - Passed on only RBA cash rate increases to existing customers (+135bps)
  - Origination and discharge yield versus portfolio yield (-26bps)
  - Asset mix benefit towards higher yielding Secured and Financial Services segments (+8bps)



- Movement reflects transaction volumes in Australian and NZ distribution businesses

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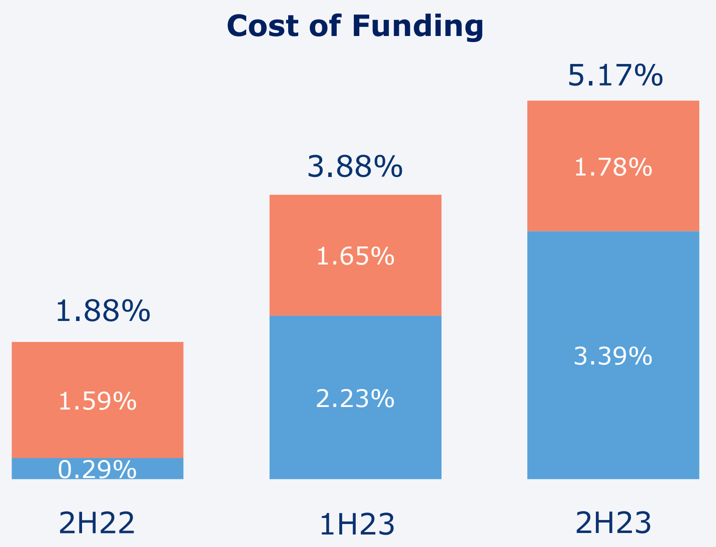
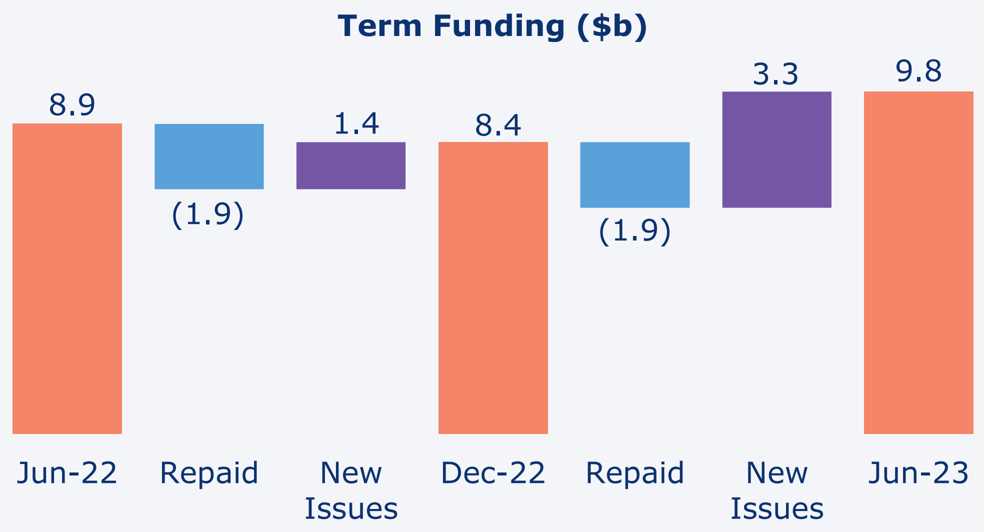
Cost of Funding

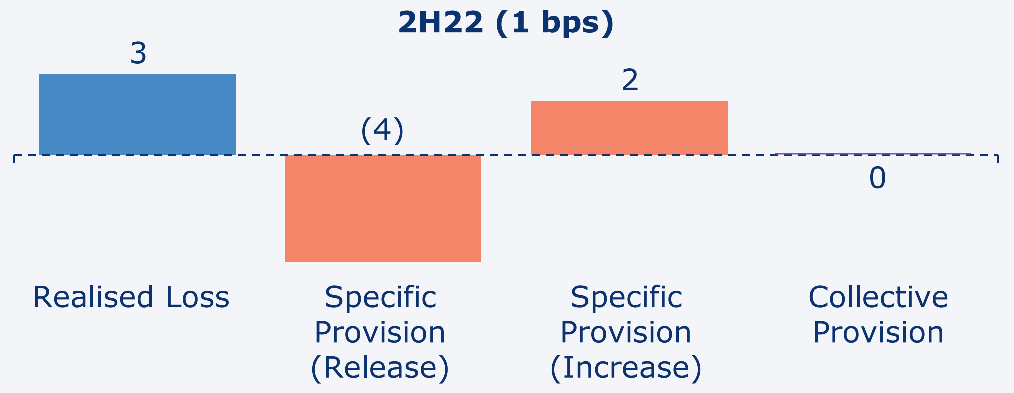


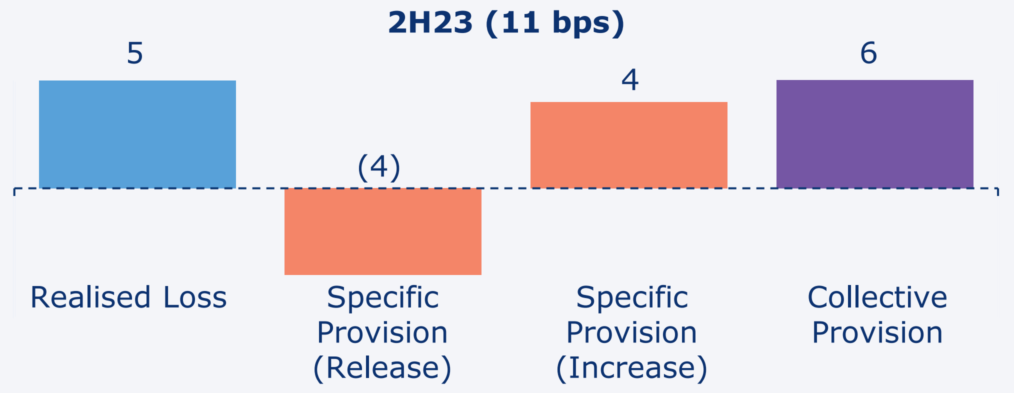
- Average funding benchmark cost 339bps in 2H23 (increase of 116bps v 1H23) from RBA cash rate increases
- Average funding margin 178bps in 2H23 (increase 13bps from 1H23) due to higher margins on new funding versus existing

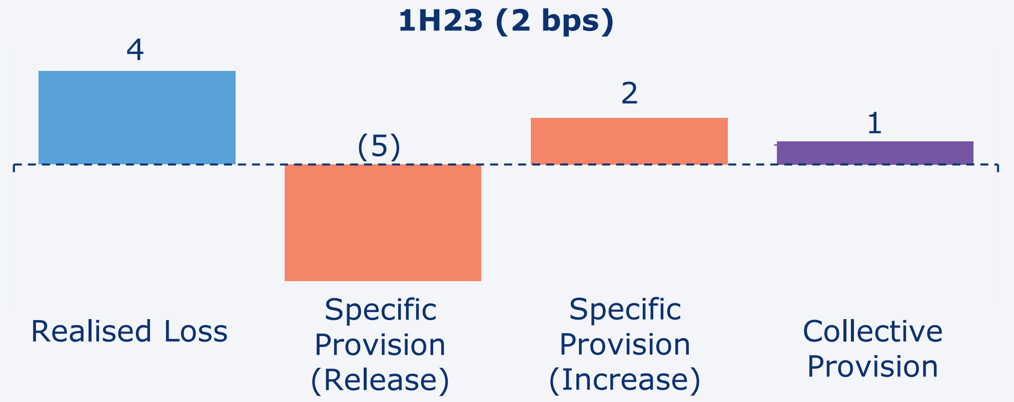


- FY23 Term issuance $4.7b supporting Residential and Secured asset growth
- New issue margins stable across the period but higher than existing funding

BDD







- Impairment expense 11bps in 2H23 driven by:
  - Realised losses (5bps) largely offset by specific provision release relating to write-offs (4bps)
  - Higher specific provisions reflect higher arrears profile (4bps)
  - Increase in collective provision to reflect mix shift towards higher yielding Secured and Financial Services segments (6bps)

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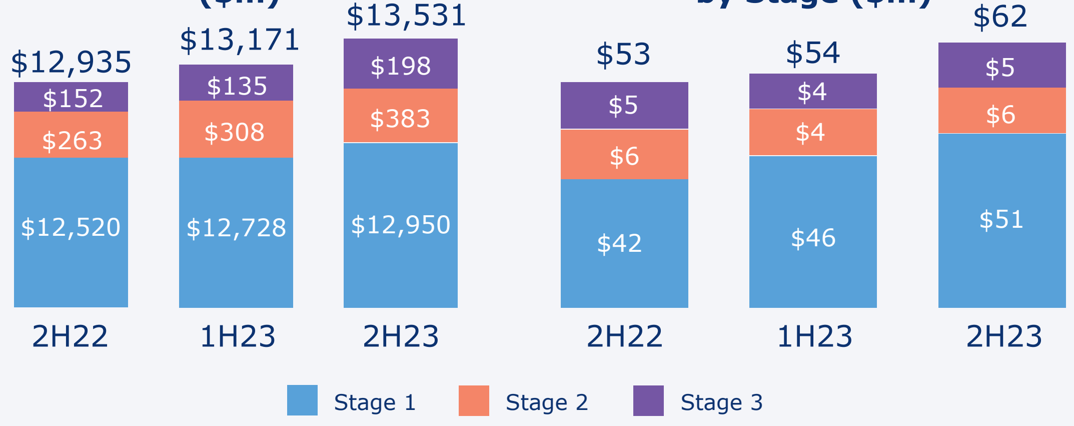
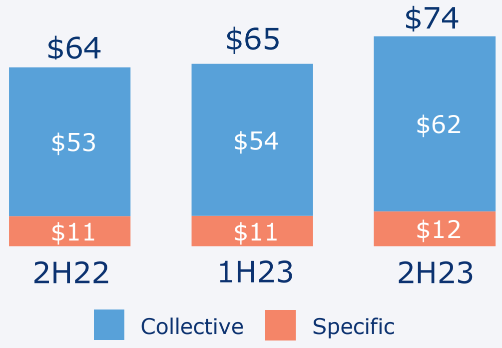
Loss Provisions

Portfolio by Stage ($m) | **Collective Provision by Stage ($m)**



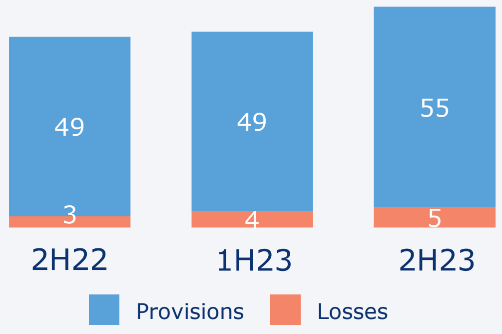
- Increase in Stage 2 and Stage 3 balances reflect higher number of customers seeking repayment variations
- Customers seeking support has reduced each month since April
- 58% of customers in Stage 3 making active payments at 89% of contract amount

Provisions by Nature ($m)



- Specific provisions at 2H23 ($12m) consistent with 1H23 and 2H22
- Increase in collective provisions at 2H23 ($62m) reflecting mix shift towards Secured and Financial Services segments

Provision Coverage (bps)



- Total provisions at 2H23 (55bps) provide 6 times coverage against annualised 2H23 realised losses (9bps)
- Total provisions at 2H23 ($74m) provide 37% coverage against Stage 3 balances (42% in 2H22)

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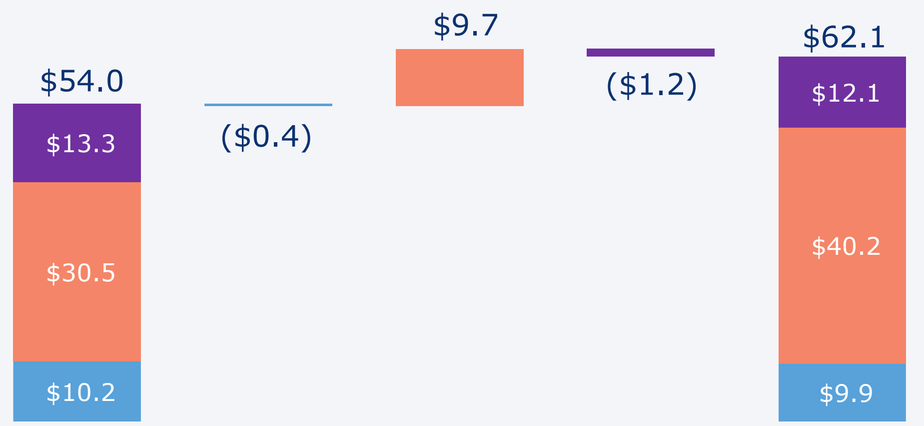
Expected Credit Loss

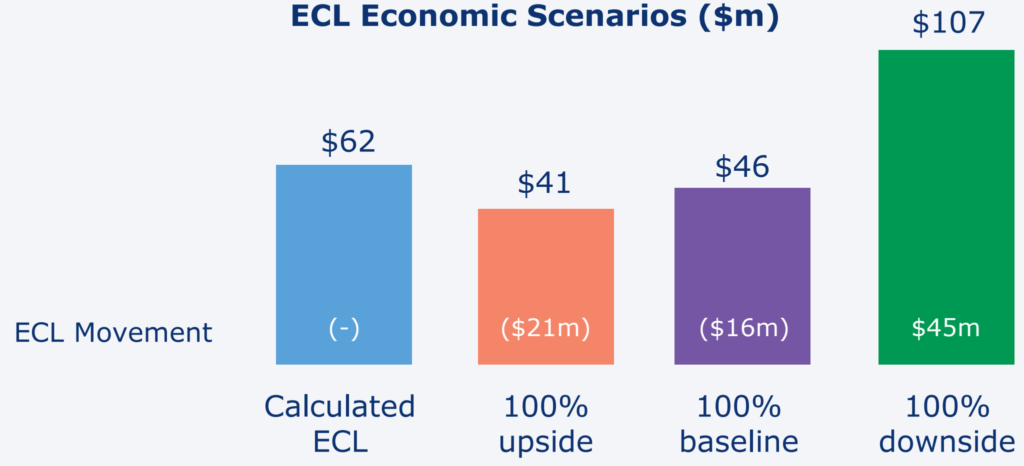
ECL by Segment ($m)



Expected Loss	Dec-22	Residential	Secured	Fin Serv	Jun-23
Loan life	0.41%	0.12%	0.86%	2.32%	0.47%
Annual	0.16%	0.05%	0.28%	0.93%	0.18%

- Reduction in AU residential from lower portfolio offset by increase in NZ residential from increase in expected loss
- Increase in secured from higher portfolio (stable expected loss)
- Reduction in financial services from reduced expected loss as past write-offs better than expected

ECL Economic Scenarios ($m)



Economic Scenarios (Aust.)	Upside	Baseline	Downside
Probability weighting (FY22)	5% (5%)	70% (65%)	25% (30%)
Unemployment	4.3%	4.8%	5.2%
GDP	2.1%	0.6%	0.3%
Property Prices (HVI*)	191	188	180
RBA Cash Rate	3.5%	4.2%	5.5%

*HVI – Home Value Index

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Operating Expenses

Operating expenses ($m)	2H22	1H23	2H23
Personnel	42	45	48
Other	31	35	34
Cash expenses	**73**	**80**	**82**
IP amortisation	6	6	6
Total expenses	**79**	**86**	**88**
Cost to income	**23.4%**	**25.8%**	**27.5%**
FTE (#)	524	550	546

Cost to income = Underlying personnel & other expenses / Underlying Net Revenue

- Operating costs stable 2H23 v 1H23; lower net revenue explains increase in cost to income ratio
- Personnel cost 2H23 v 2H22 reflects wage inflation and FTE increase to 546 (from 524) to support growth
- Other expenses 2H23 v 2H22 reflects increase in marketing and technology expenses to drive continued business growth

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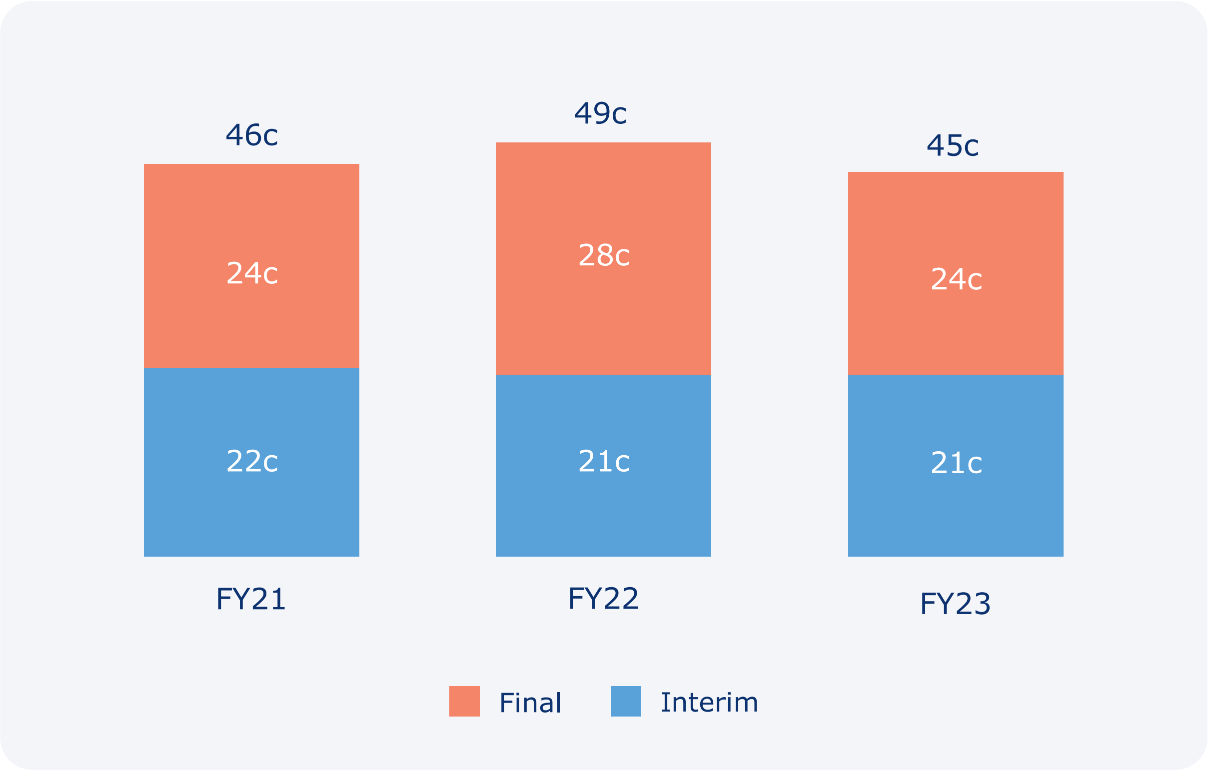
Distribution



- Final distribution 24 cents for 7-month period to 30-Jun-23 to be paid 31-Aug-23
- FY23 distribution of 45 cents provides 12% yield based on 30 June 2023 security price of $3.63
- FY23 payout ratio 75% NPAT
- FY24 distribution expected to move toward the midpoint of the policy range (40-80% NPAT)

Financial Position

$m	Jun-22	Jun-23
Cash	654	1,342
Financial assets	12,916	13,535
Loans to related parties	140	122
Other assets	615	693
Financing	(12,802)	(14,082)
Other liabilities	(407)	(440)
Net assets	**1,116**	**1,170**
Leverage ratio	**12.8**	**13.4**

Leverage Ratio = Total Assets / Total Equity

- All wholesale facilities due for renewal in FY23 extended ($3.5b)
- New facility established to support Secured asset growth ($500m)
- Strong liquidity position with aggregate wholesale limits ($7b) and available limits ($3b) at 30-Jun-23
- Increase in cash from pre-funding RMBS & Auto ABS in June ($425m) utilised in July
- Stable balance sheet with higher leverage driven by the temporary cash increase
- Annualised underlying ROE 15% with modest leverage
- Risk Adjusted Capital Ratio 15.8% to be affirmed by S&P by AGM

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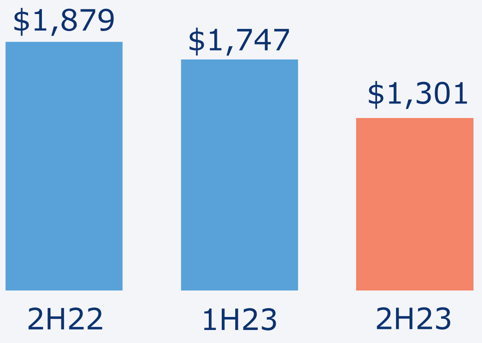
03 Business Update

Business Update

- Steady originations with continued portfolio growth
- Residential impacted by slower demand and higher discharges
- Continued growth in SME and SMSF lending
- Momentum supported by new distribution partnerships
- Fin Services benefitting from growth in PL lending
- Increase in arrears managed effectively

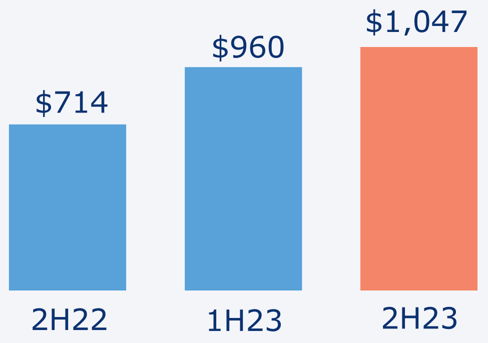
Segment Loan Origination

Residential ($'m)



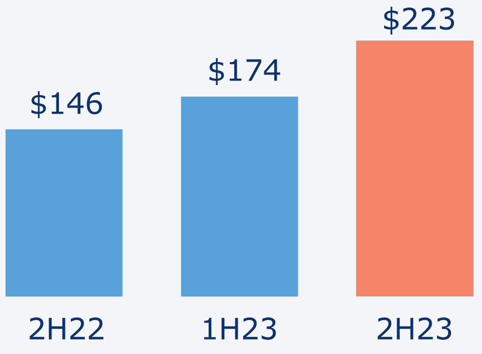
- FY23 originations ($3.0b) 23% below record FY22 originations ($3.9b) reflecting slower credit growth given interest rate cycle
- 25% reduction in 2H23 v 1H23 although monthly origination profile improved since May

Secured ($m)



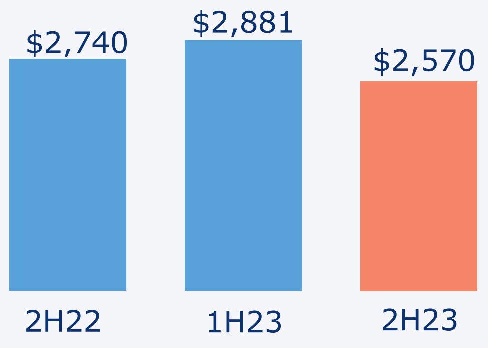
- Record FY23 new originations ($2.0b) 43% increase over FY22 ($1.4b)
- 5% increase in 2H23 v 1H23
- Driven by continued growth in auto finance lending as market share re-distribution continues

Fin Services ($m)



- Record FY23 originations ($385m) 49% increase over FY22 ($259m)
- 21% increase in 2H23 v 1H23
- Driven by market share gain from other non-banks

Group ($m)



- FY23 originations ($5.4b) 2% lower v FY22 ($5.6b)
- 12% reduction in 2H23 v record 1H23 half year originations
- Reduction in Residential lending only partially offset by continued growth in higher yielding Secured and Financial Services lending

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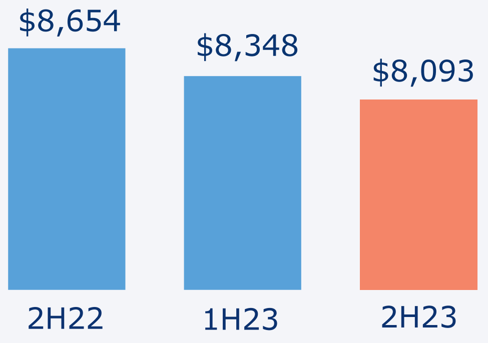
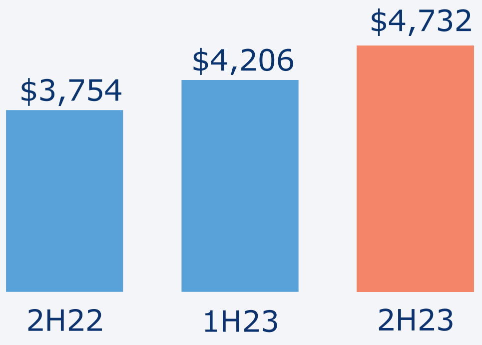
Segment Loan Portfolio

Residential ($m)



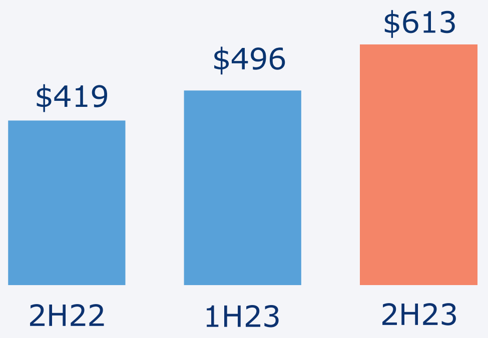
- Portfolio growth continues to be impacted by higher than trend discharges and amortisation

Secured ($m)



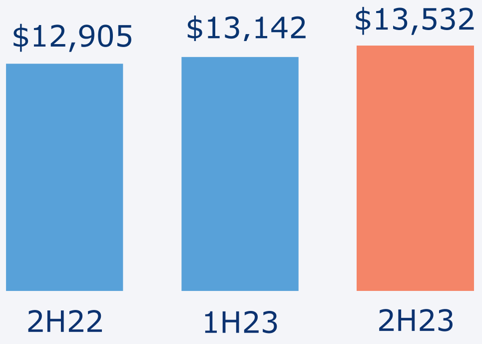
- Continued growth in Secured loan portfolio driven by growth in auto finance lending, with steady discharges and amortisation

Fin Services ($m)



- Continued growth in personal loan portfolio

Group ($m)



- 3% portfolio growth in 2H23 v 1H23
- Portfolio mix continues to move toward higher yielding Secured and Financial Services assets

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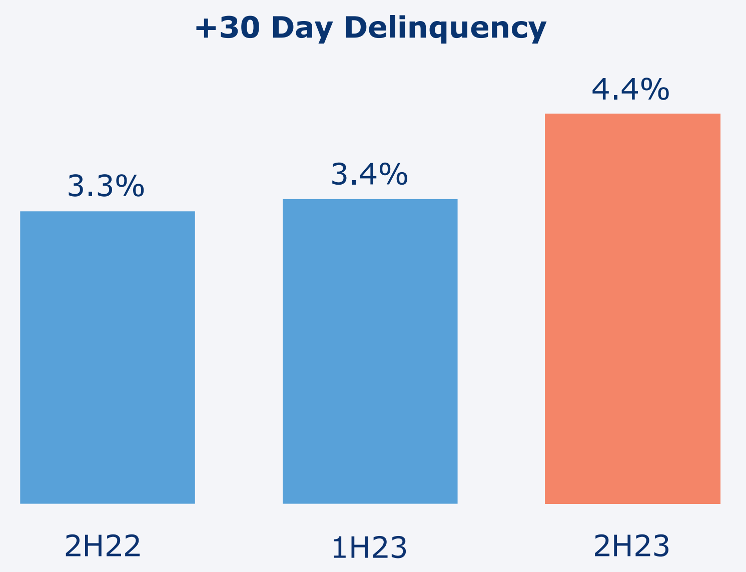
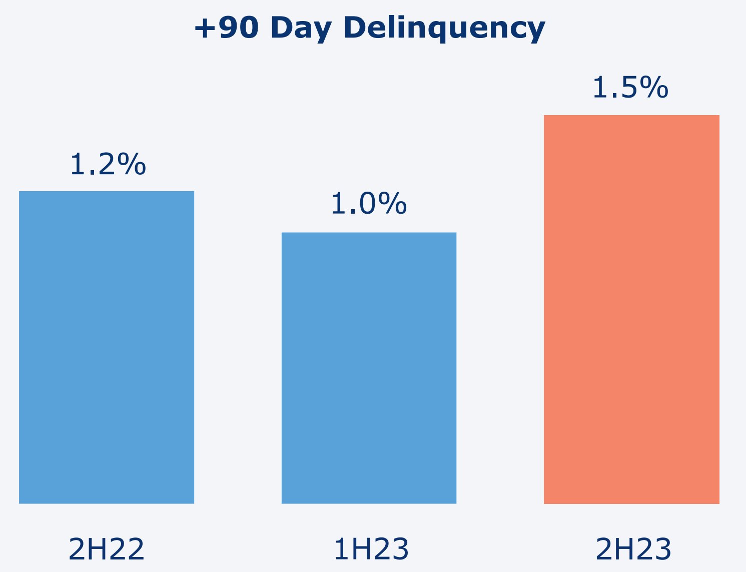
Portfolio Risk



- Early-stage delinquency higher at Jun-23 v Jun-22 driven by higher number of customers seeking repayment variations
- Customers seeking support has reduced each month since April



- Increase in impairment repayment variation support continues
- Proportion of Stage 3 customers making repayments has remained consistent, with an increase in the percentage of contract amount being repaid
- Longer-dated delinquency showing early signs of improvement although risk remains

Customers in hardship included in delinquency results

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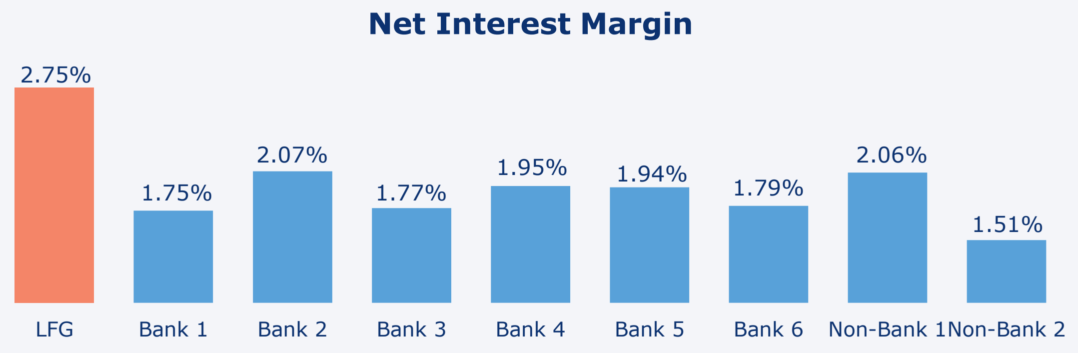
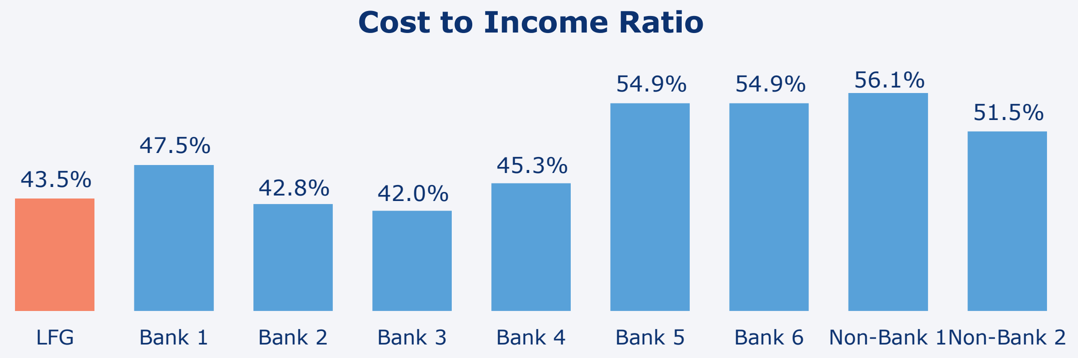
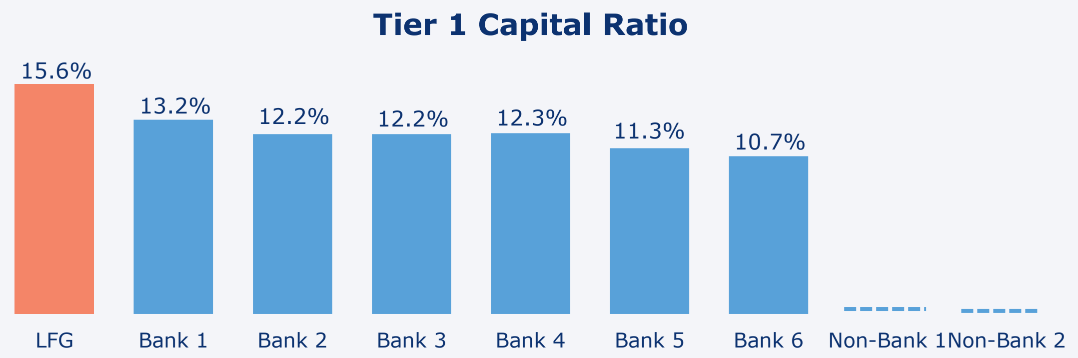
Relative Value Drivers



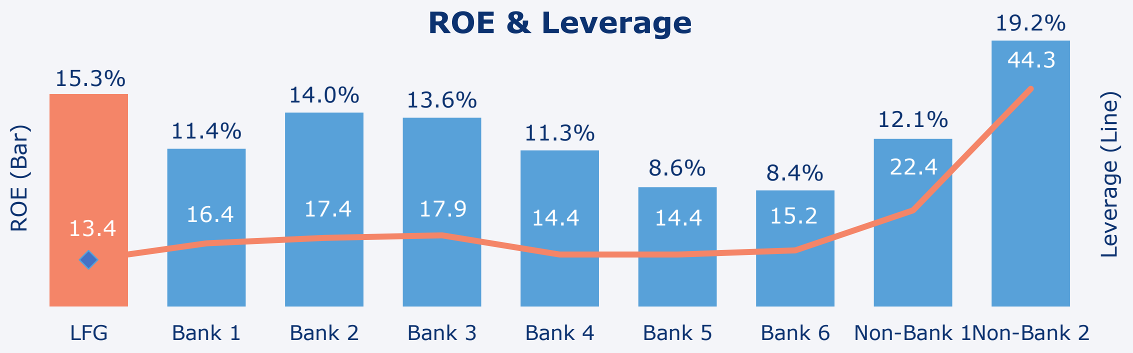
Industry leading net interest margin



Efficient cost management



Bank-like capital strength



Highest ROE to Leverage ratio in excess of 100%

Results represent: LFG=FY23; Others (public full-year or half-year results as at 23-Aug-23)
Tier 1 Capital Ratio represent: LFG=S&P RAC Ratio; Others APRA Tier 1 Ratio

ESG, People and Culture

- Recertified B Corporation with +30% improved score
- Carbon audit completed to prepare for 2030
- Initiated Innovate Reconciliation Action Plan
- Improved diversity, inclusion and belonging metrics
- MFAA Diversity and Inclusion award winner 2023
- Introduced green solutions to all lending products
- 95% staff proud to work at Liberty

04 Outlook

Outlook

- Economic indicators support subdued credit growth
- Refinance activity to continue as fixed rate loans expire
- Increasing provisions from change in economic cycle
- NIM reduces further as funding cost remains elevated
- Inflationary pressure impacting operating expenses
- Customer demand for improved digital experiences

05 Summary

Summary

- Diverse customer solutions driving asset growth
- Leading peer NIM despite elevated cost of funds
- Leading ROE to leverage ratio in industry
- Strong liquidity and capital position to support growth
- Ongoing investment in diversifying customer solutions
- Ongoing investment in digital customer solutions

06 Questions

Appendix

Who is LFG?

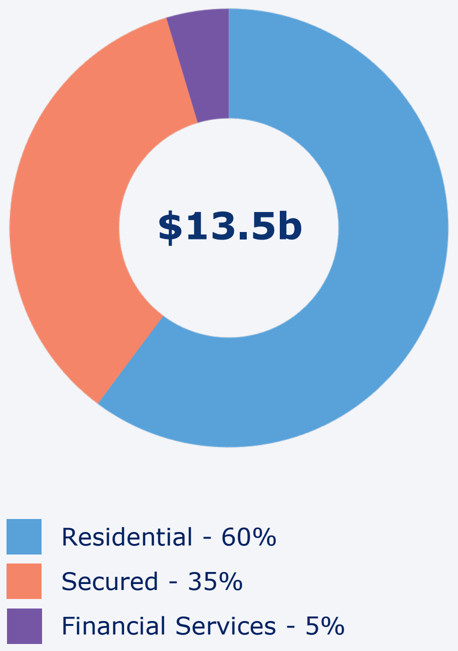
Liberty Financial

- Started 1997 and only investment grade non-bank (BBB-/positive/A-3)
- Pioneered specialty finance industry in Australia and New Zealand
- Over 540 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



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

Financial Services

Personal loans

- Personal loans in Australia

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

- Designer and distributer of life insurance in Australia

Broker network and aggregators

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

Investments

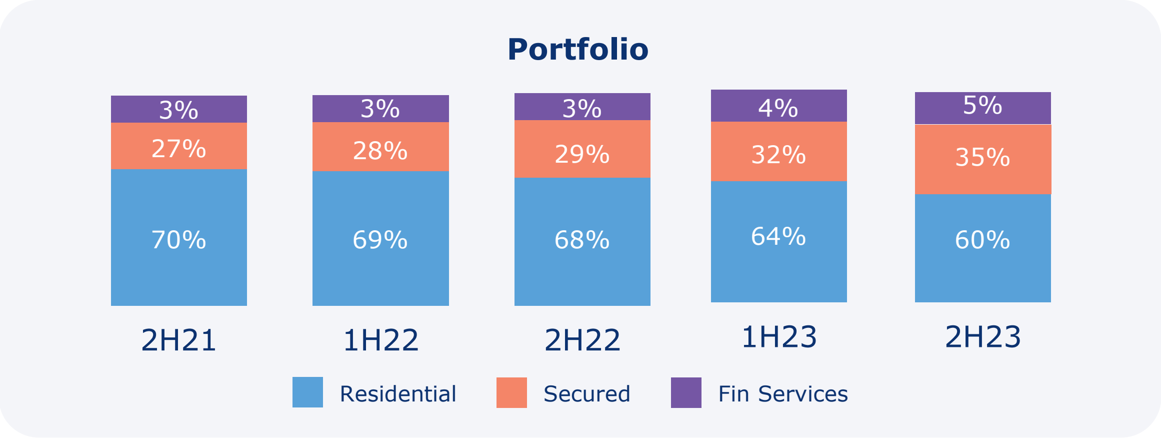
- A range of investment products for short and long-term investing in Australia and New Zealand

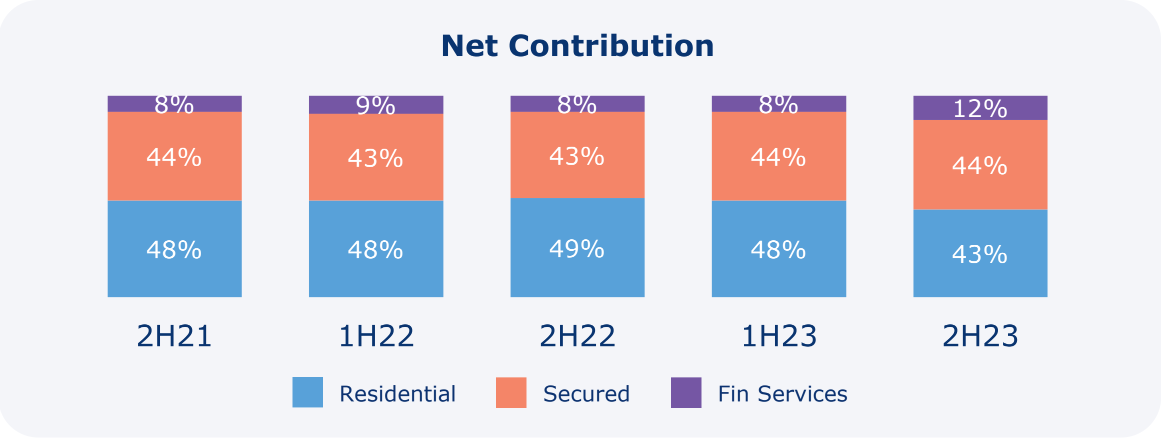
Real estate

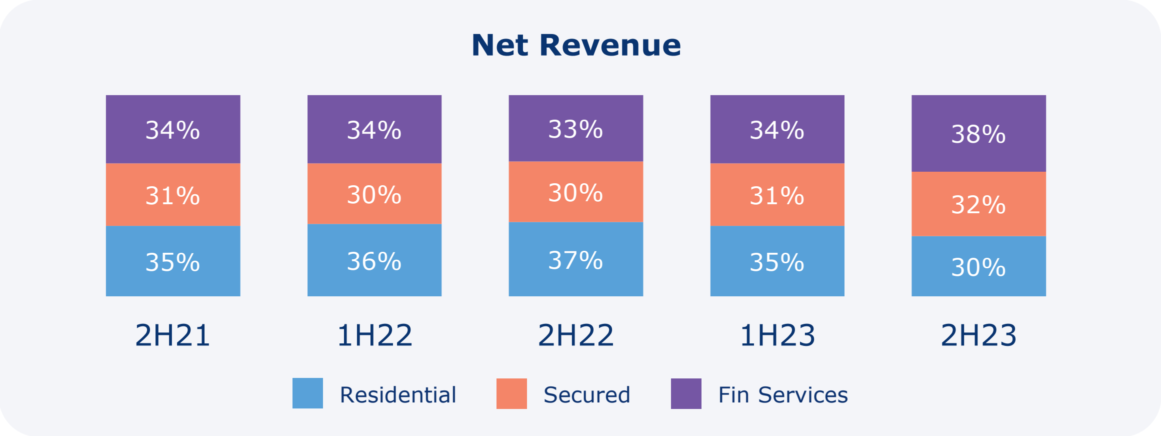
- Real estate services in New Zealand

Lending activities | Insurance underwriting | Loan and insurance distribution | Investments | Real estate

Segment Performance







- 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

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Reconciliation Statutory to Underlying

$m	FY22	FY23
Statutory NPAT	219	181
IP amortisation	12	12
Statutory NPATA	**231**	**193**
Commission income		(23)
Commission expense		7
Contingent consideration expense		10
Tax effect of adjustments	-	5
Tax cost base reset benefit		(5)
Total adjustments	-	(6)
Underlying NPATA	**231**	**187**

Liberty

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