

# Liberty Financial Group Half Year Results

27 February 2023



# Presenting today

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**James Boyle**  
Chief Executive Officer



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Chief Financial Officer

# Agenda



- 01** Highlights
- 02** Results Analysis
- 03** Business Update
- 04** Outlook
- 05** Summary
- 06** Questions

# 01 Highlights

# Highlights

-  Continued portfolio growth through diversification
-  Lower NIM as BBSW increases
-  Sound underlying performance
-  Stronger balance sheet with 17% underlying ROE
-  Small increase in arrears
-  First non-bank to receive CDR accreditation
-  Stable distribution to Securityholders

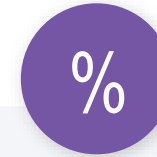
# Financial Highlights



**Underlying NPATA**  
\$104.8m (\$122.4m)  
-14%



**Net revenue**  
\$311.4m (\$324.9)  
-4%



**NIM**  
2.87% (3.14%)  
-27bps



**BDD**  
2bps (-1bps)  
+3bps



**Cost to income**  
25.8% (21.9%)  
+390bps



**Distribution**  
21c (21c)  
Stable

# Operating Highlights



## Average financial assets

\$13.1b (\$12.4b)  
+6%



## New assets originated

\$2.9b (\$2.8b)  
+2%



## Impaired loans

\$135m (\$174m)  
-22%



## FTE Staff

550 (501)  
+10%



## Broker NPS

79 (83)  
-5%



## Customer NPS

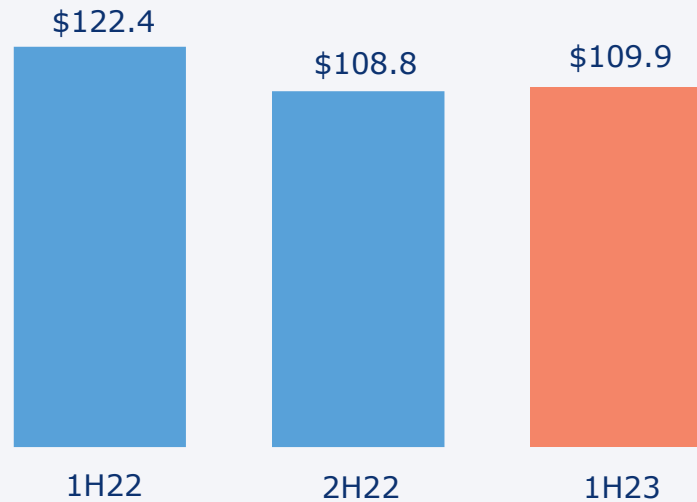
55 (63)  
-13%

## 02 Results Analysis



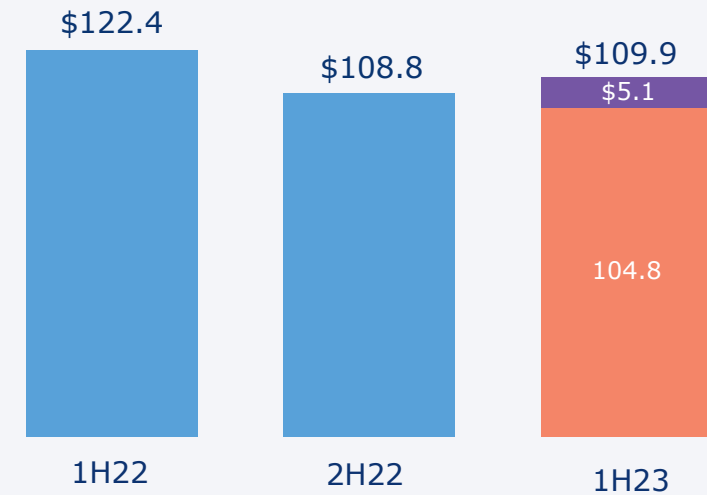
# Profit Performance

Statutory NPATA (\$'m)



- ▲ Reduction in statutory NPATA 10% (1H23 v 1H22) principally explained by expected reduction in net interest margin to 2.87% (from 3.14%)
- ▲ Increase in statutory NPATA 1% (1H23 v 2H22) due to one-time impact from ALI acquisition offsetting expected reduction in net interest margin to 2.87% (from 3.05%)

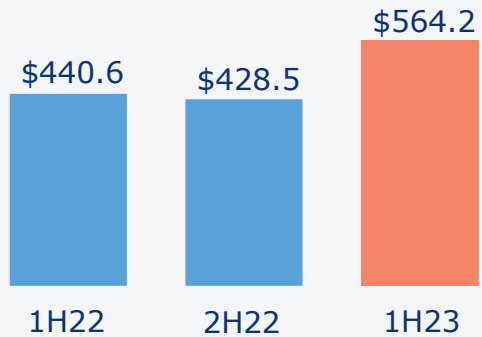
Underlying NPATA (\$m)



- ▲ One-time impact of moving to full ownership of ALI explains difference in 1H23 statutory and underlying NPATA:
  - Net commission income (\$16m)
  - Contingent consideration (\$10m)
  - Tax impact of the adjustments (\$1m)

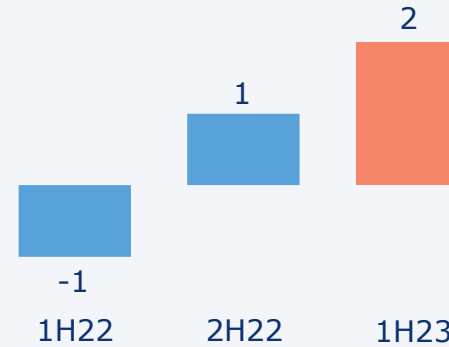
# Profit Drivers

## Total Revenue (\$'m)



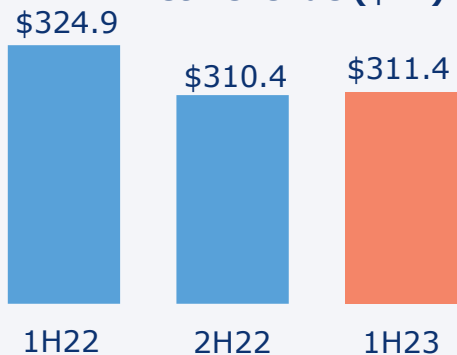
- ▲ Total revenue growth +28% (1H23 v 1H22) and +32% (1H23 v 2H22) driven by increased yield given RBA rate increases and higher average financial assets

## BDD (bps)



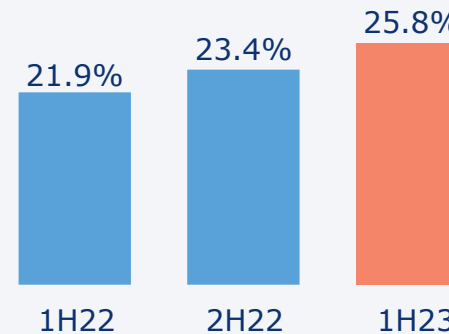
- ▲ Consistent low loss performance with reduced impaired loans and realised losses covered by specific provisions
- ▲ Small increase in collective provision as improved portfolio performance offset by mix shift towards Secured assets

## Net Revenue (\$'m)



- ▲ Net revenue -4% (1H23 v 1H22) as NIM reduction more than offsets growth in average financial assets
- ▲ Stable net revenue 1H23 v 2H22 as NIM reduction offset by growth in average financial assets and higher other finance income

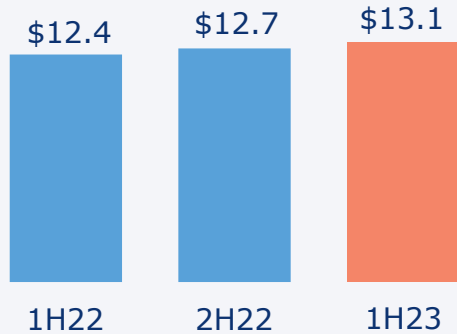
## Cost to Income (%)



- ▲ Increase in FTE staff to support expected growth and salary increases contributes ~50% of CTI movement
- ▲ Increase in technology and marketing expenses in 1H23 to drive continued business growth contributes ~50% of CTI movement

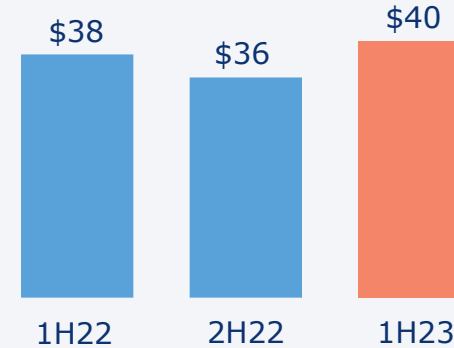
# Revenue

## Average Assets (\$'b)



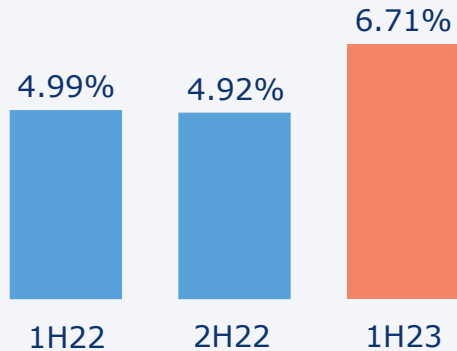
- ▲ Average asset growth +6% (1H23 v 1H22) and +3% (1H23 v 2H22)
- ▲ Record new originations \$2.9b (v \$2.7b 2H22 and \$2.8b 1H22)
- ▲ Loan discharges and prepayments continuing to influence portfolio growth

## Lending Income (\$'m)



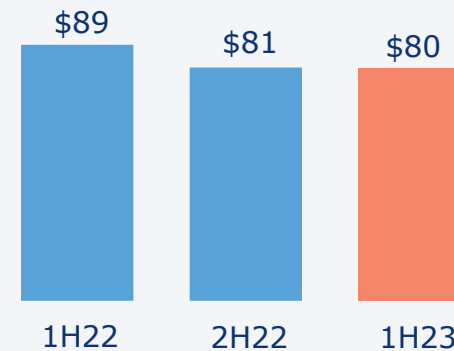
- ▲ Movement in lending income between periods consistent with movement in new loan origination

## Yield (%)



- ▲ Increase in 1H23 yield to 6.71% from 2H22 (4.92%) due to
  - Impact on average yield of pass on of RBA cash rate increases to existing customers (+185bps)
  - Origination and discharge v portfolio impact (-14bps)
  - Asset mix benefit towards higher yielding Secured and Financial Services segments (+8bps)

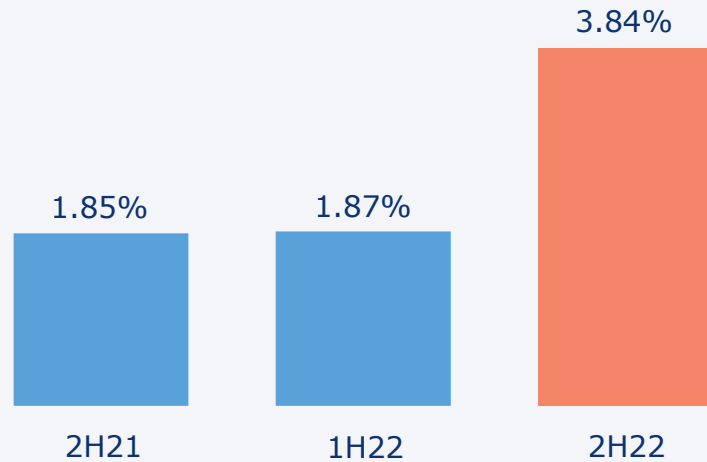
## Commission Income (\$'m)



- ▲ Decline in 1H23 v 1H22 largely due to lower NZ transaction volume

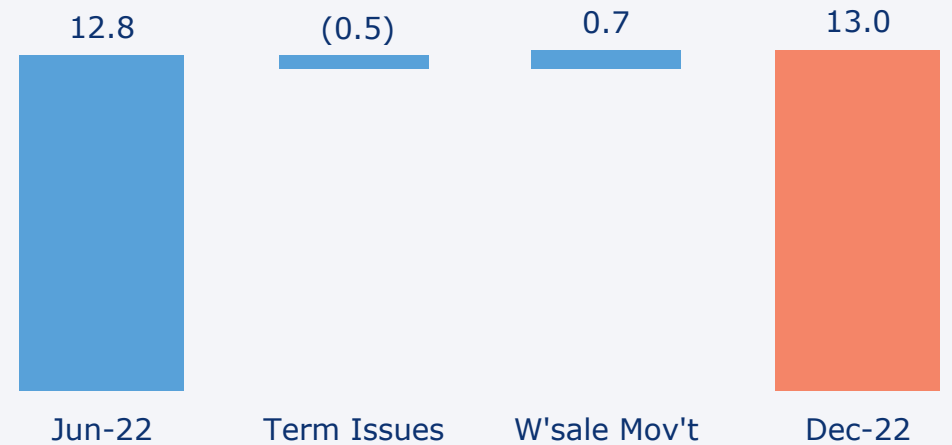
# Funding

## Cost of Funds



- ▲ RBA rate increase 225bps in 1H23
- ▲ Average 1M BBSW 239bps in 1H23 (increase of 215bps v 2H22)
- ▲ Funding margin 145bps in 1H23 (decrease of 18bps from 2H22)
  - Impact of change in liability mix
- ▲ Exit NIM 10bps below 1H23 average

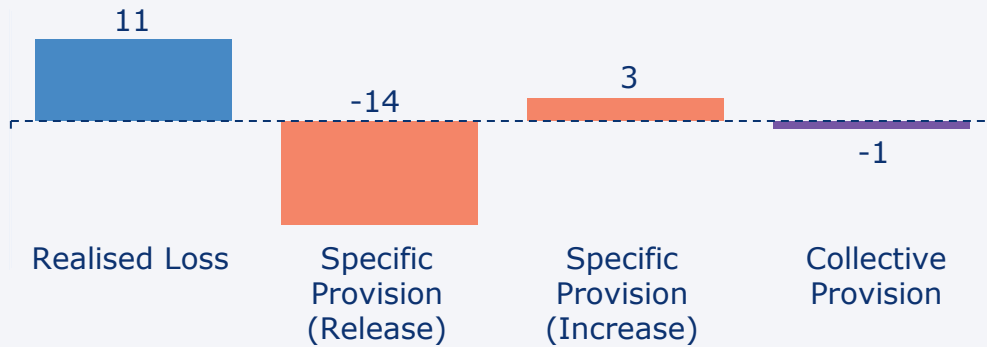
## Total Financing (\$'b)



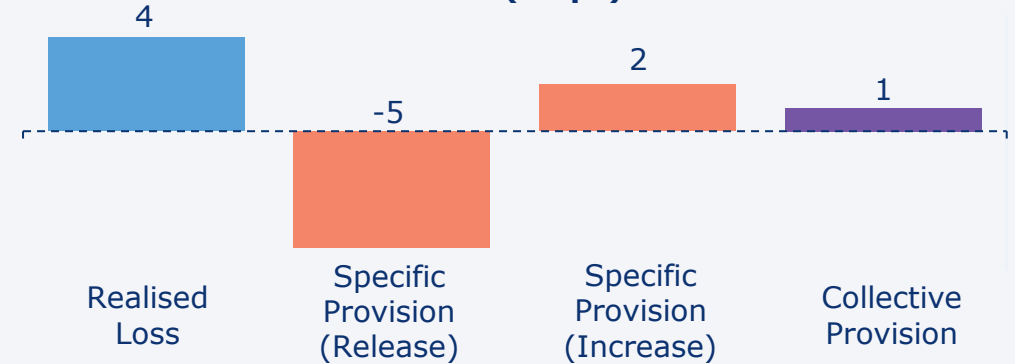
- ▲ Raised and retained \$5b in funding since 30 June 2022
  - Issued one SME ABS (\$750m) and one RMBS (\$600m) in 1H23
  - Issued one RMBS (\$1b) in February 2023
  - Established new auto wholesale facility in 1H23 (\$500m)
  - Renewed all facilities due for renewal in 1H23 (\$2b)
- ▲ Funding limit \$7.1b in excess of LTM loan originations (\$5.6b)

# BDD

## 1H22 (-1 bps)



## 1H23 (2 bps)



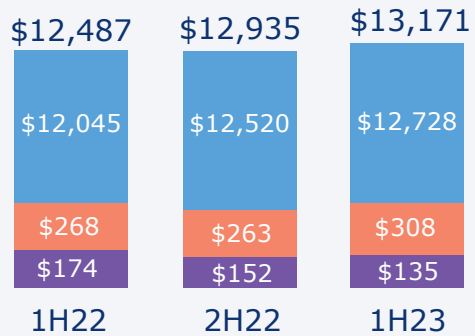
## 2H22 (1 bps)



- ▲ Impairment expense 2bps in 1H23 driven by
  - Realised losses (4bps) offset by specific provision release relating to write-offs (5bps)
  - Stable increase in specific provisions (2bps)
  - Increase in collective provision to reflect mix shift towards higher yielding Secured segment partially offset by continued improvement in portfolio performance (1bp)

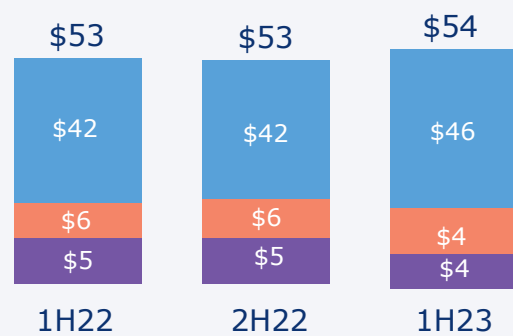
# Loss Provisions

### Portfolio by Stage (\$m)



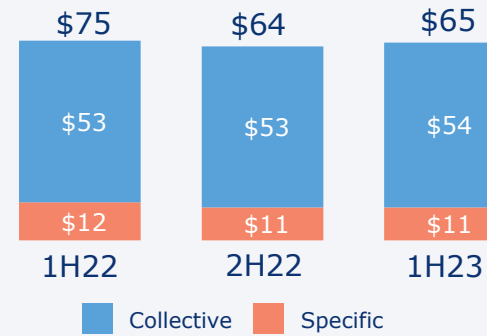
■ Stage 1 ■ Stage 2 ■ Stage 3

### Collective Provision by Stage (\$m)



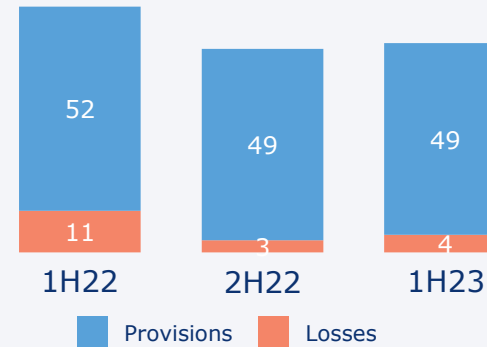
- Higher Stage 2 balances partly offset by reduced Stage 3 balances as borrower impact from COVID ends
- Value of Stage 2 and 3 balances consistent at Dec-22 and Dec-21 demonstrating ability of borrowers to absorb rate increases
- 58% of customers in Stage 3 making active payments
- Stage 3 customers making repayments at 81% of contract

### Provisions by Nature (\$'m)



- Specific provisions at 1H23 (\$11m) consistent with 2H22 and 1H22
- Slight increase in collective provisions at 1H23 to \$54m reflecting improved portfolio performance offset by mix shift towards Secured segment

### Provision Coverage (bps)



- Total provisions at 1H23 (49bps) provide 6 times coverage against annualised 1H23 realised losses (8bps)
- Total provisions at 1H23 (\$65m) provide 48% coverage against Stage 3 balances (42% in 2H22)

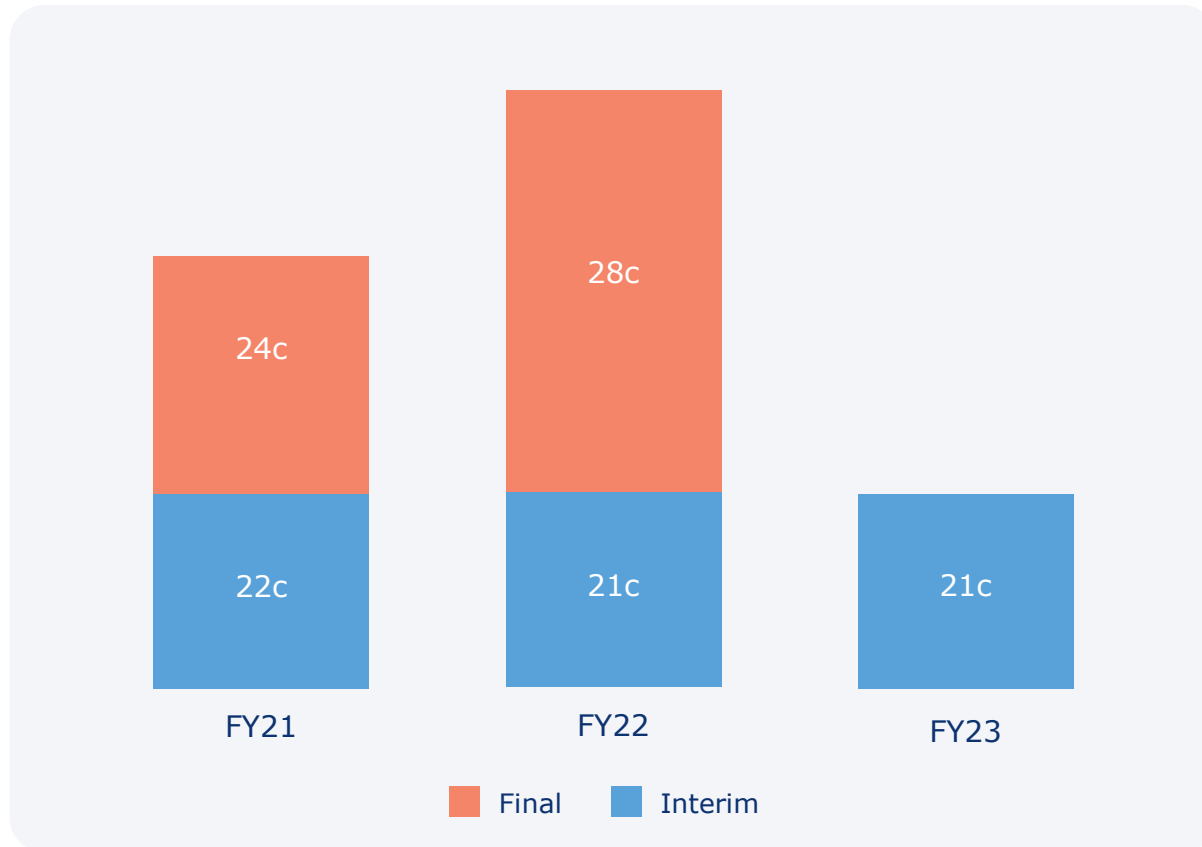
# Cost to income

<b>Operating expenses</b>	<b>1H22</b>	<b>2H22</b>	<b>1H23</b>
Personnel	42	42	45
Other	29	31	35
<b>Cash expenses</b>	<b>71</b>	<b>73</b>	<b>80</b>
IP amortisation	6	6	6
<b>Total expenses</b>	<b>77</b>	<b>79</b>	<b>86</b>
<b>Cost to income</b>	<b>21.9%</b>	<b>23.4%</b>	<b>25.8%</b>
FTE	501	524	550

- ▲ Personnel cost increase in 1H23 v 2H22 reflects increase in FTE to 550 (from 524) to support growth and wage inflation
- ▲ Other expenses in 1H23 higher than 2H22 and 1H22 due to an increase in technology and marketing expenses to drive continued business growth
- ▲ Each cost category contributes 50% of the cost to income increase
- ▲ Impact of lower net revenue explains 1% of the increase in cost to income ratio

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

# Distribution



- ▲ Interim distribution 21 cents paid for 5-month earnings period to Nov-22.
- ▲ Implied annualised yield of 13% based on security price of \$3.99
- ▲ Final distribution for 7-month earnings period to 30-Jun-23 expected to be paid end of Aug-23.
- ▲ Future distribution payout policy of 40-80% NPAT retained



# Financial Position

\$m	Jun-22	Dec-22
Cash	654	594
Financial assets	12,916	13,167
Loans to related parties	140	70
Other assets	615	643
Financing	(12,802)	(13,021)
Other liabilities	(407)	(292)
<b>Net assets</b>	<b>1,116</b>	<b>1,161</b>
<b>Leverage ratio</b>	<b>12.8</b>	<b>12.5</b>

- ▲ Stable balance sheet and lower leverage
- ▲ Investment grade rating BBB- (positive outlook) affirmed following analysis of FY22 results
- ▲ Annualised underlying ROE 17% with modest leverage

Leverage Ratio = Total Assets / Total Equity

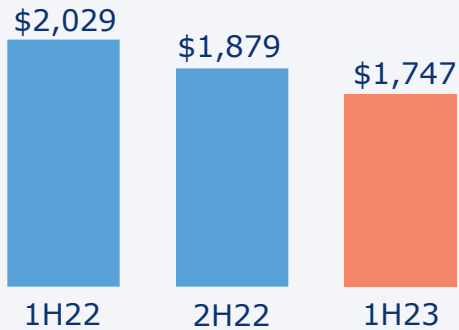
# 03 Business Update

# Business Update

-  Record originations with continued portfolio growth
-  Residential impacted by slower demand and discharges
-  Continued growth in SME and SMSF lending
-  Motor growth fuelled by new distribution partnerships
-  Fin Services benefitting from growth in PL lending
-  Small increase in arrears

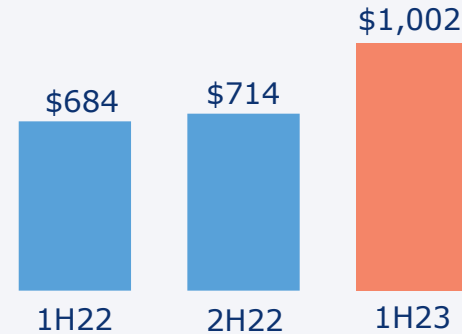
# Segment Loan Origination

## Residential (\$'m)



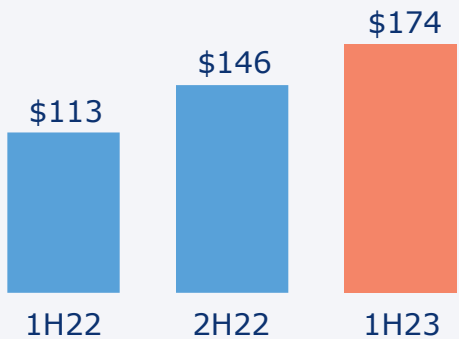
- 7% reduction in 1H23 v 2H22 reflecting slower credit growth given interest rate cycle

## Secured (\$'m)



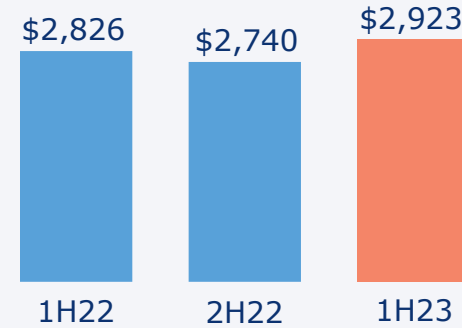
- 40% growth in 1H23 v 2H22 driven by continued strong growth in auto finance lending as market share re-distribution continues

## Fin Services (\$'m)



- 19% growth in 1H23 v 2H22 driven by market share gain from other non-banks

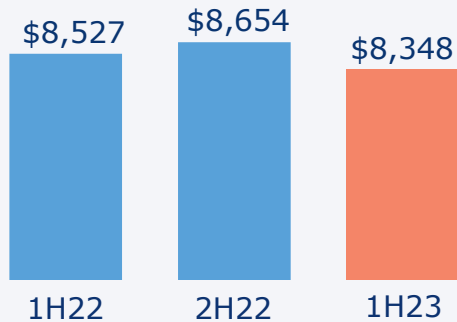
## Group (\$'m)



- 7% growth in 1H23 v 2H22 representing record half year new loan originations for the Group
- Reduction in Residential lending has been more than offset by continued growth in higher yielding Secured and Financial Services lending

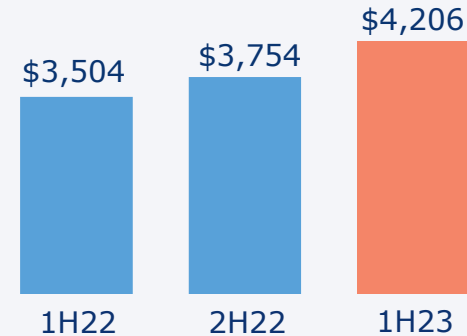
# Segment Loan Portfolio

## Residential (\$'m)



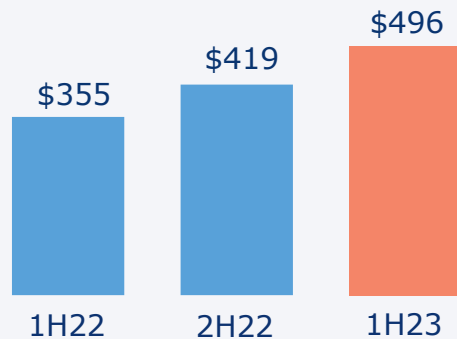
- Portfolio growth continues to be impacted by higher than trend discharges and amortisation

## Secured (\$'m)



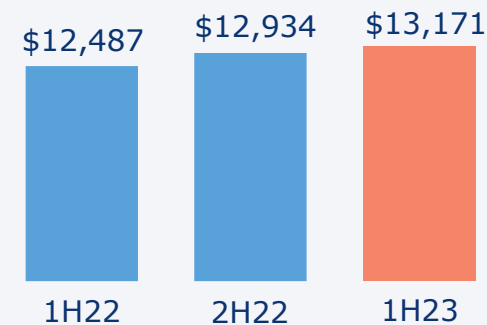
- Accelerating growth in Secured loan portfolio driven by growth in auto finance lending, with steady discharges and amortisation

## Fin Services (\$'m)



- Continued strong growth in personal loan portfolio

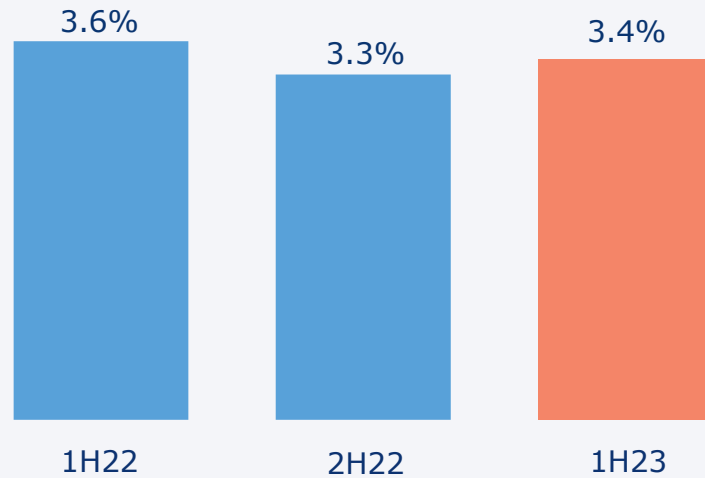
## Group (\$'m)



- 2% portfolio growth in 1H23 v 2H22
- Portfolio mix continues to move toward higher yielding Secured and Financial Services assets

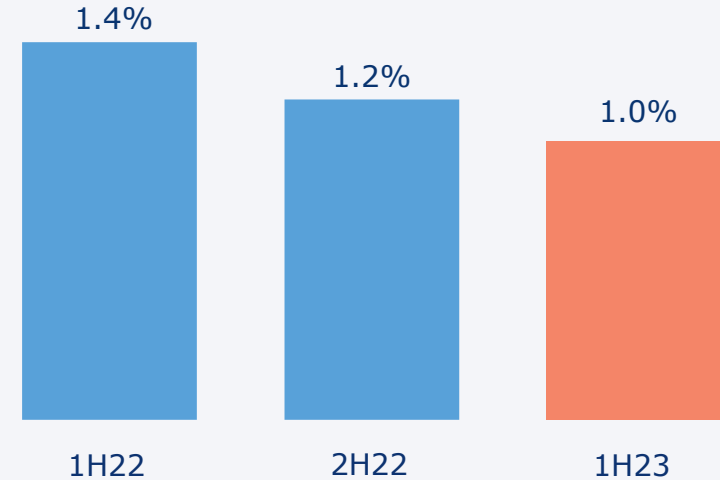
# Portfolio Risk

## +30 Day Delinquency



- ▲ Early-stage delinquency lower at Dec-22 v Dec-21 demonstrating ability of borrowers to absorb rate increases
- ▲ We continue to actively work with our customers to manage the impact of higher repayment obligations

## +90 Day Delinquency



- ▲ Consistent reduction in impaired loans through the periods
- ▲ More customers will need hardship assistance in future periods as interest rates increase

# 04 Outlook

# Outlook

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-  Economic indicators support slower credit growth
-  Refinance activity to continue as fixed rate loans expire
-  Greater customer support needed as rates increase
-  NIM reduces as higher 1M BBSW cost normalises
-  Auto supply chain recovery supporting finance growth
-  Demand for improving customer digital experiences



# 05 Summary

# Summary

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-  Measured growth in financial asset portfolio
-  Diverse customer solutions balancing margin pressure
-  Steady distributions supporting Securityholder returns
-  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?

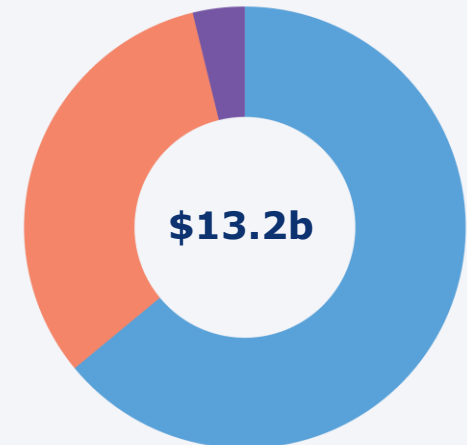
## Liberty Financial

- ▲ Started 1997 and only investment grade non-bank (BBB-/positive/A-3)
- ▲ Pioneered specialty finance industry in Australia and New Zealand
- ▲ Over 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 - 64%
- Secured - 32%
- Financial Services - 4%

# 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 distributor 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

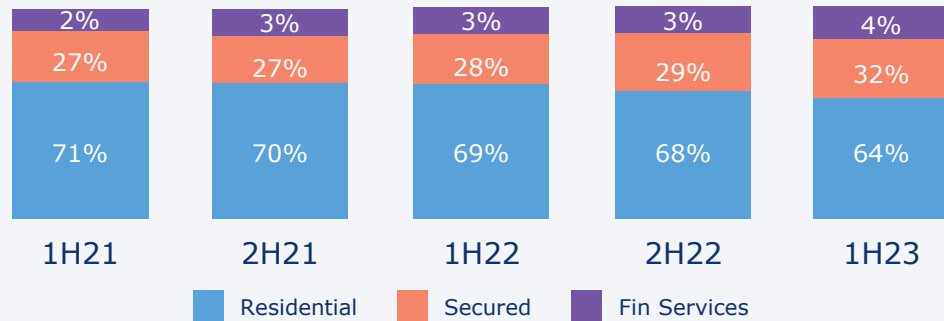
Loan and insurance distribution

Investments

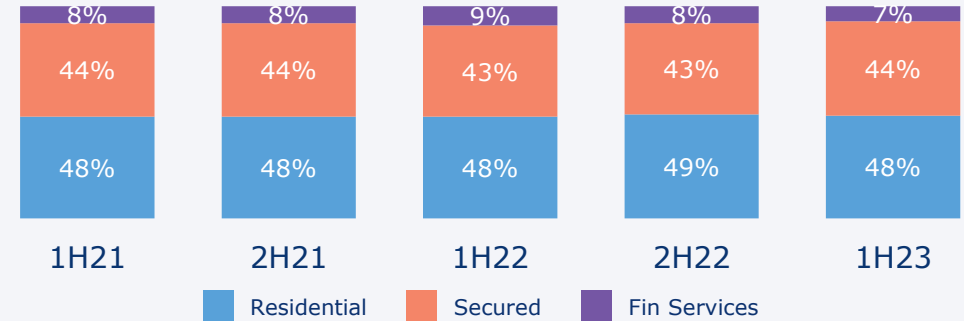
Real estate

# Segment Performance

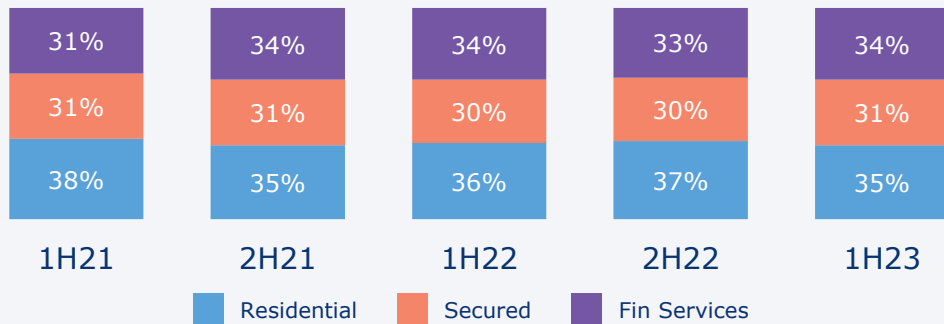
### Portfolio



### Net Contribution



### Net Revenue



- Relative segment portfolio mix continues its trajectory toward Secured and Financial Services
- Higher yielding Secured and Financial Services assets generate materially higher relative contribution to Group net revenue and contribution
- These trends are expected to continue into future periods supporting efficient earnings growth

# Reconciliation Statutory to Underlying

\$m	HY22	HY23
Statutory NPAT	116	104
IP amortisation	6	6
<b>Statutory NPATA</b>	<b>122</b>	<b>110</b>
Commission income	-	(23)
Commission expense	-	7
Contingent consideration expense	-	10
Tax effect of adjustments	-	5
Tax cost base reset benefit	-	(4)
Adjustments	-	(5)
<b>Underlying NPATA</b>	<b>122</b>	<b>105</b>



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