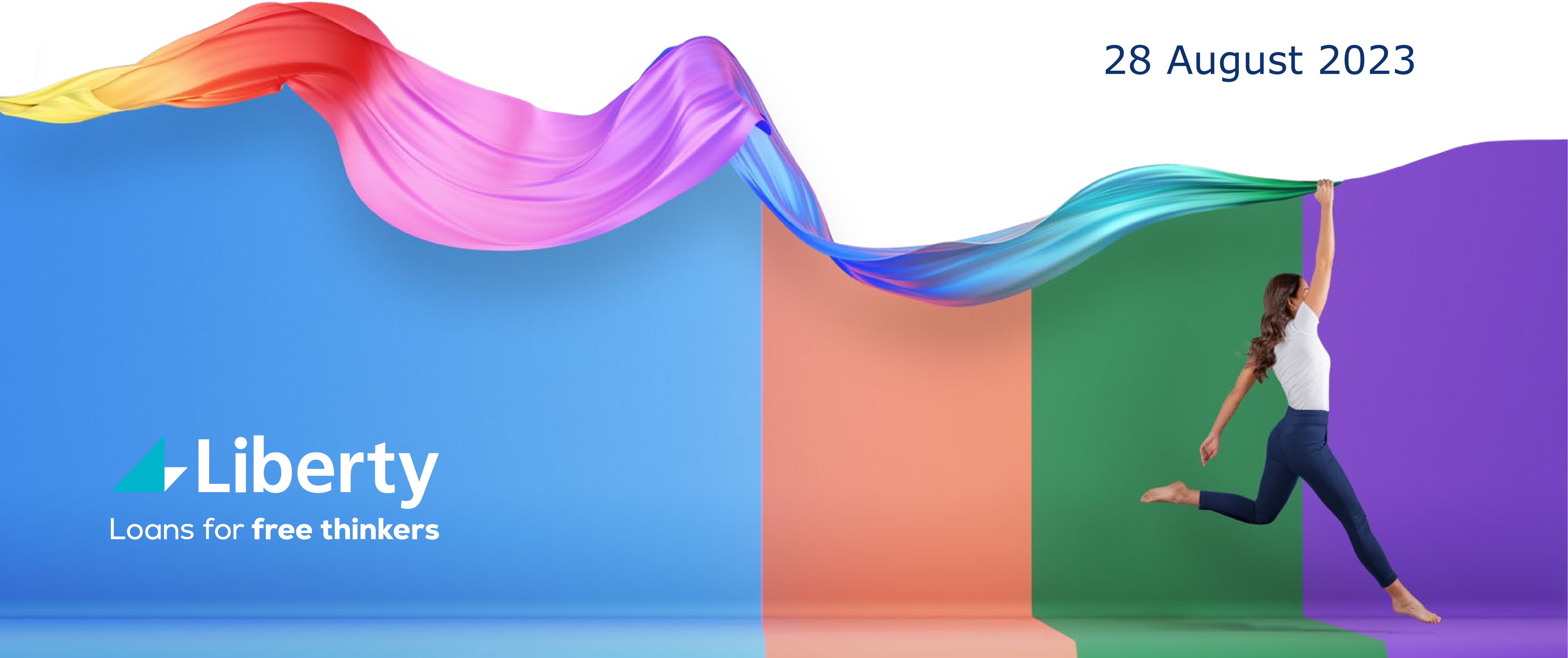
Liberty Financial Group FY23 Full Year Results

28 August 2023



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

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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

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%

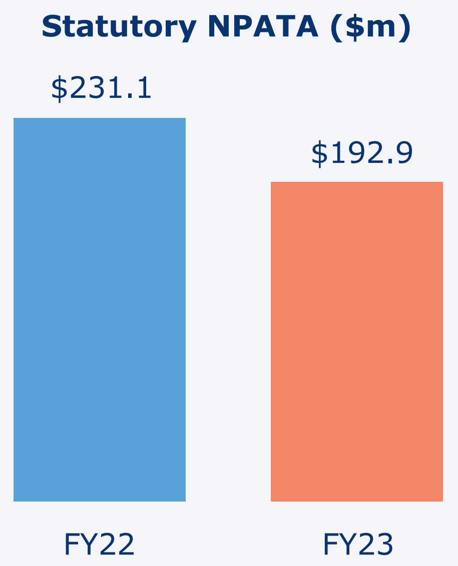
Broker NPS
82 (81)
+1%

Customer NPS
59 (64)
(8%)

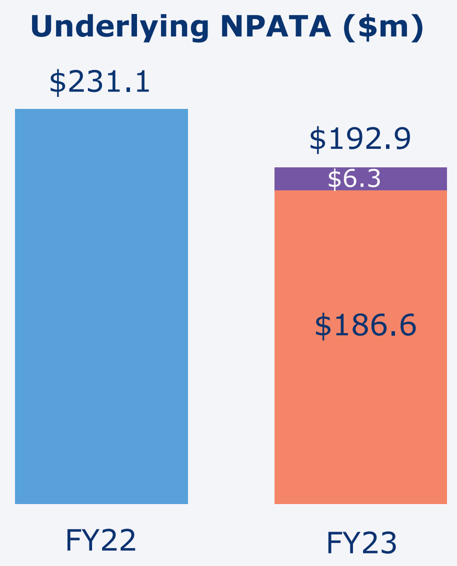
*Balances represent: FY23 (FY22) change between the periods

02 Results Analysis

Profit Performance

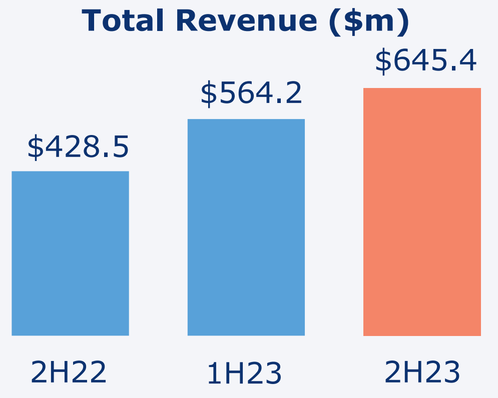


- Reduction in statutory NPATA (FY23 v FY22) due to:
  - Lower net interest margin to 2.76% (from 3.08% in FY22)
  - Higher non-cash collective provision ($9.3m) reflecting shift in asset mix to higher yielding Secured and Financial Services assets
  - Partially offset by one-time impact of ALI acquisition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

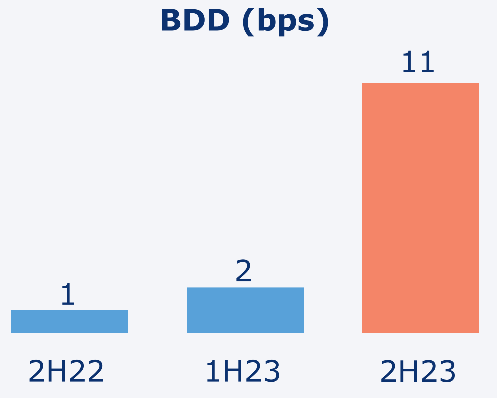


- One-time impact of moving to full ownership of ALI explains difference in FY23 statutory and underlying NPATA:
  - Net commission income ($15.6m income)
  - Contingent consideration ($9.9m expense)
  - Tax impact of the adjustments ($0.6m income)

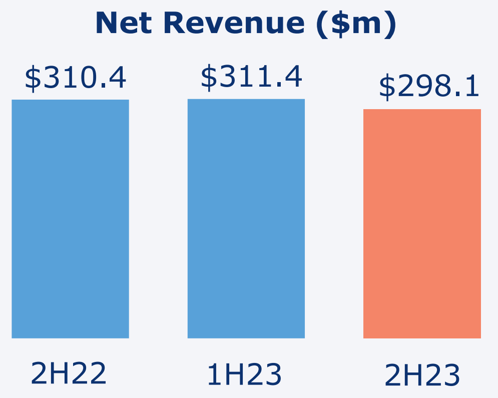
Profit Drivers



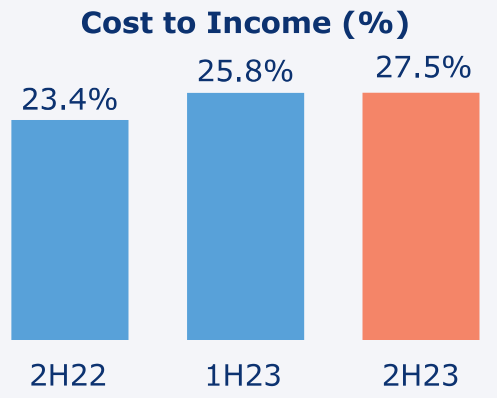
- Total revenue growth +51% (2H23 v 2H22) and +14% (2H23 v 1H23) driven by increased yield given RBA rate increases and higher average financial assets



- 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 -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



- 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

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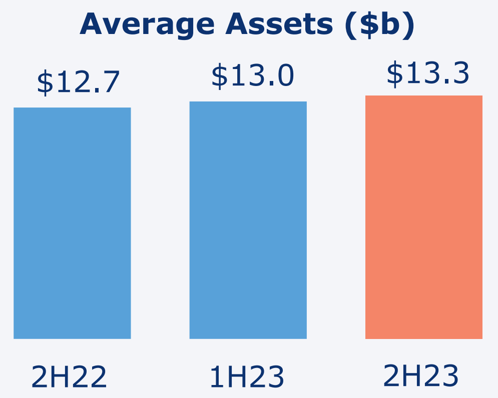
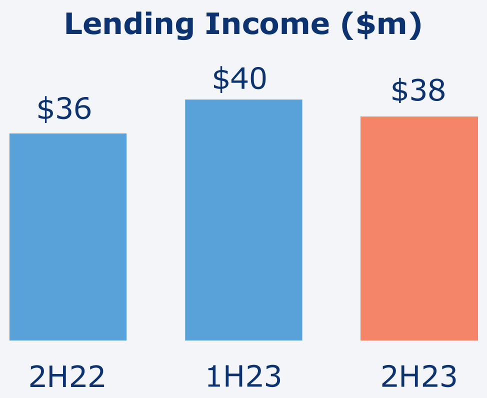
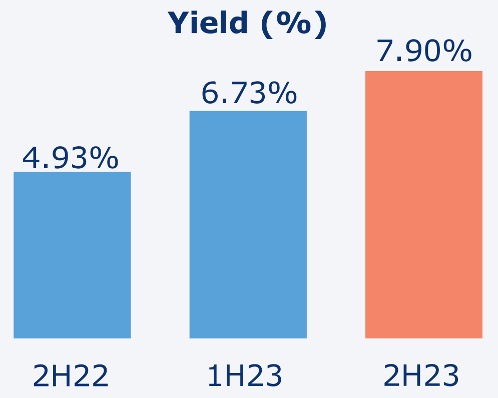
Revenue



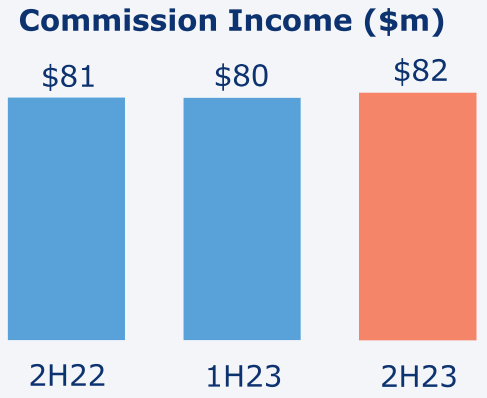
- Average asset growth 5% (2H23 v 2H22) and 2% (2H23 v 1H23) driven by Secured and Financial Services segments
- New originations $2.6b (v $2.9b 1H23 and $2.7b 2H22)
- Loan discharges and prepayments improving but continue to influence Residential portfolio growth



- 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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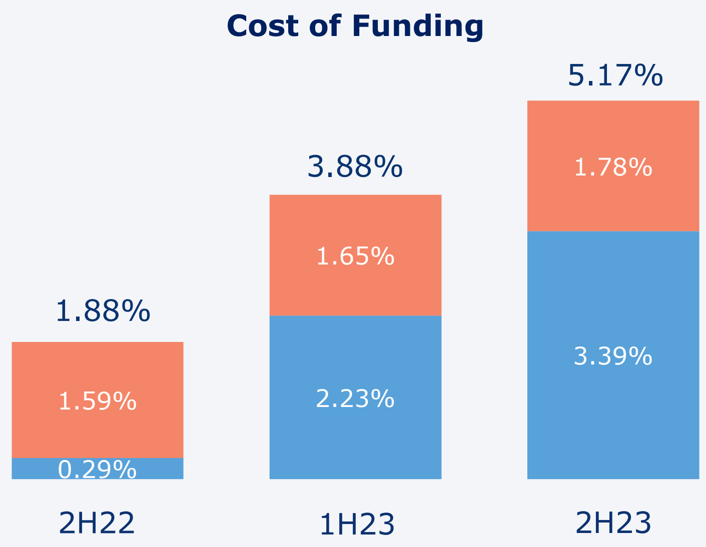
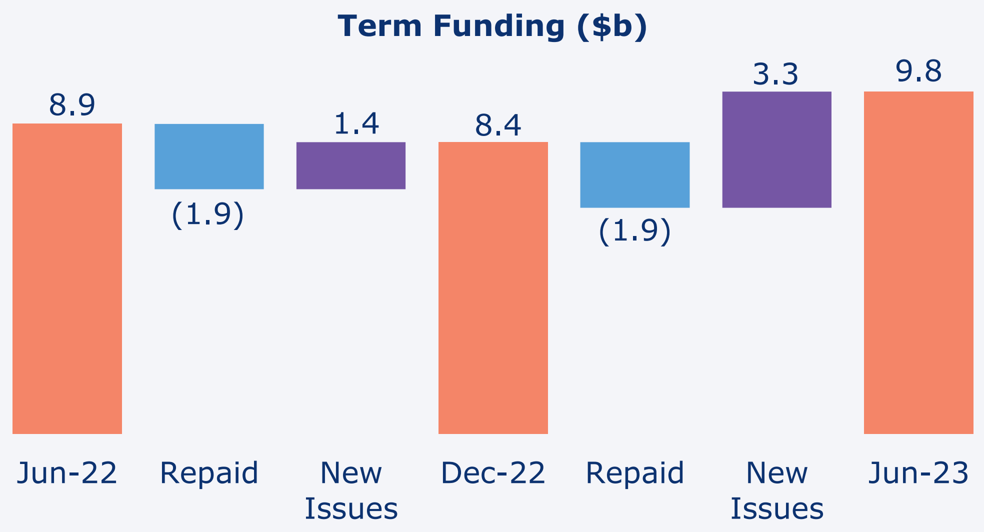
Cost of Funding

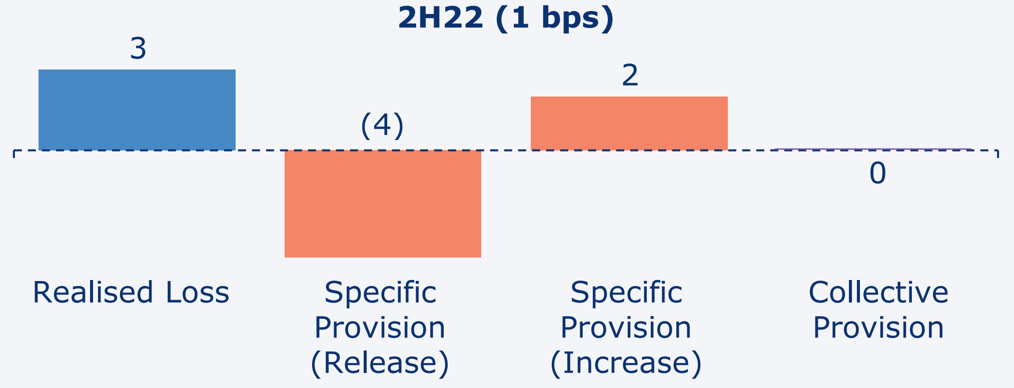


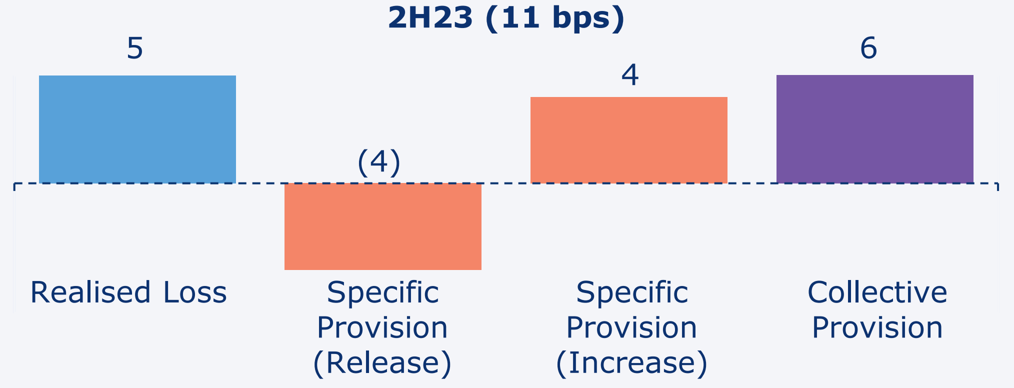
- Average funding benchmark cost 339bps in 2H23 (increase of 116bps v 1H23) from RBA cash rate increases
- Average funding margin 178bps in 2H23 (increase 13bps from 1H23) due to higher margins on new funding versus existing

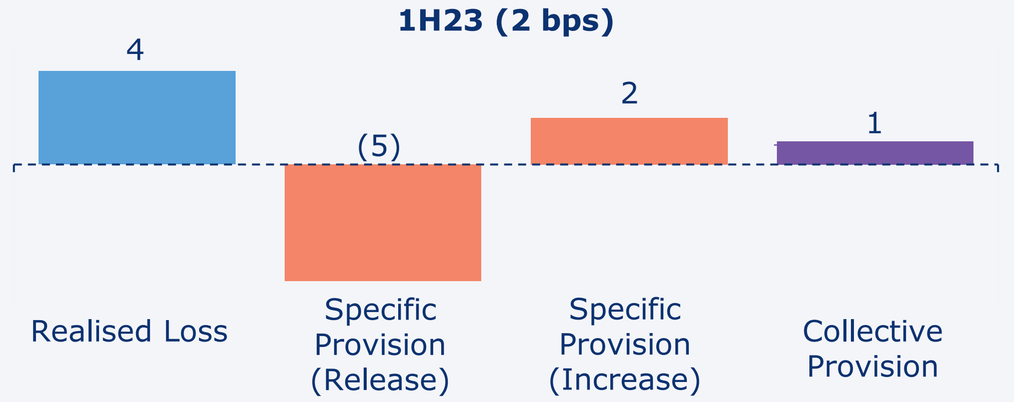


- FY23 Term issuance $4.7b supporting Residential and Secured asset growth
- New issue margins stable across the period but higher than existing funding

BDD

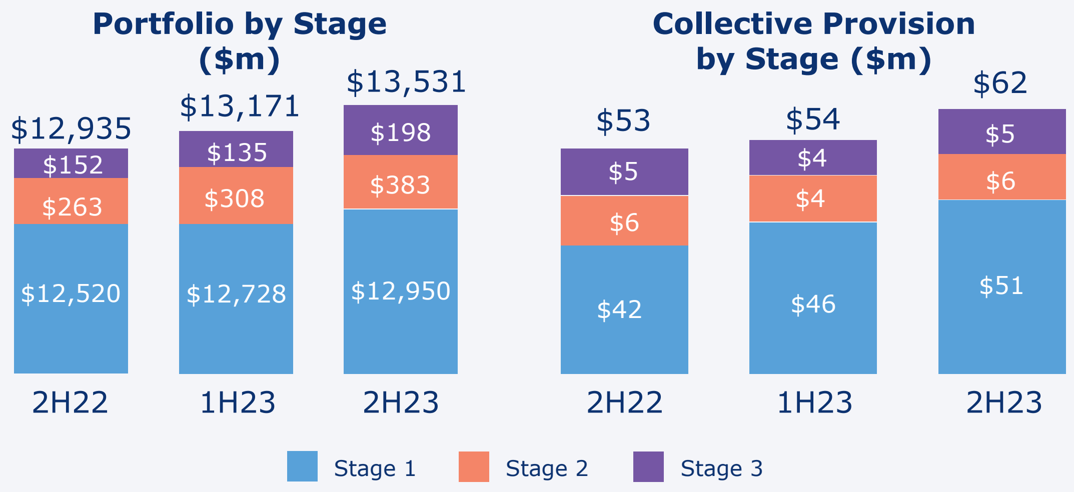




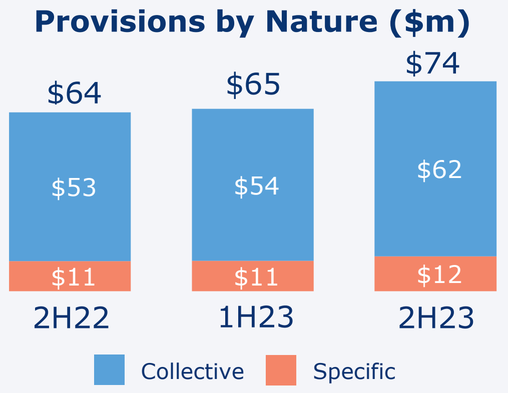


- Impairment expense 11bps in 2H23 driven by:
  - Realised losses (5bps) largely offset by specific provision release relating to write-offs (4bps)
  - Higher specific provisions reflect higher arrears profile (4bps)
  - Increase in collective provision to reflect mix shift towards higher yielding Secured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

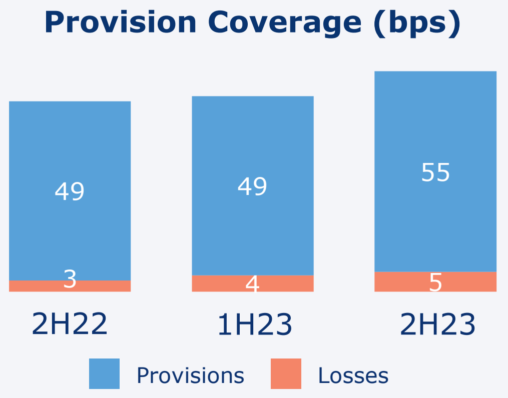
Loss Provisions



- 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



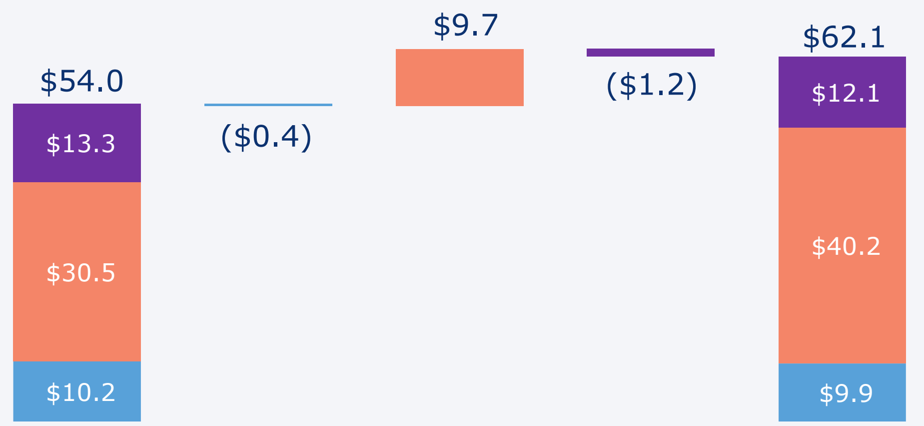
- Specific provisions at 2H23 ($12m) consistent with 1H23 and 2H22
- Increase in collective provisions at 2H23 ($62m) reflecting mix shift towards Secured and Financial Services segments



- 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)

Expected Credit Loss

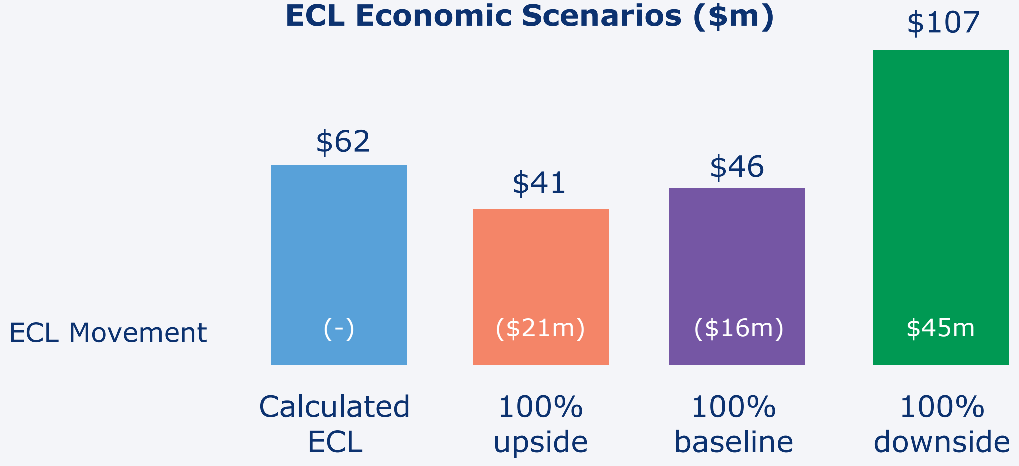
ECL by Segment ($m)



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

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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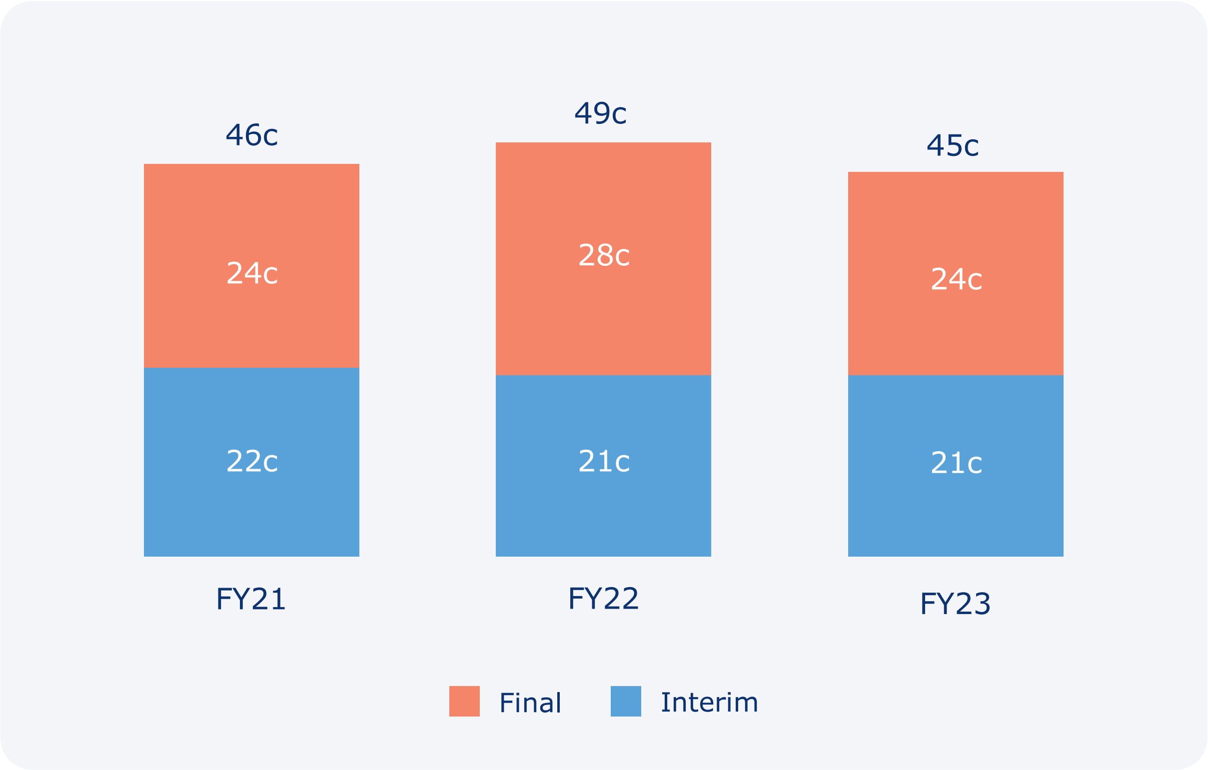
Distribution



- 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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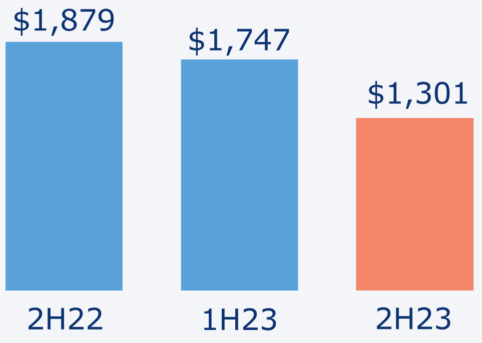
03 Business Update

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

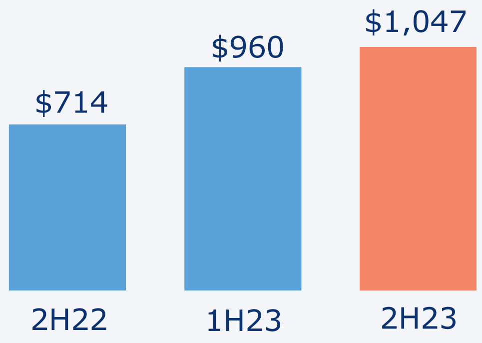
Segment Loan Origination

Residential ($'m)



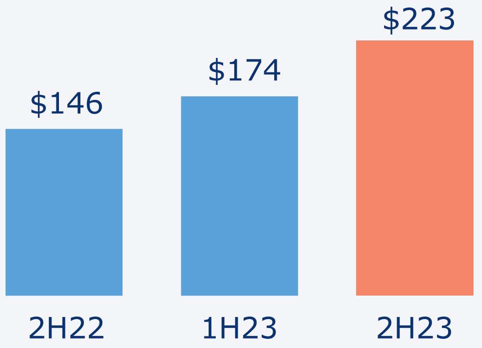
- FY23 originations ($3.0b) 23% below record FY22 originations ($3.9b) reflecting slower credit growth given interest rate cycle
- 25% reduction in 2H23 v 1H23 although monthly origination profile improved since May

Secured ($m)



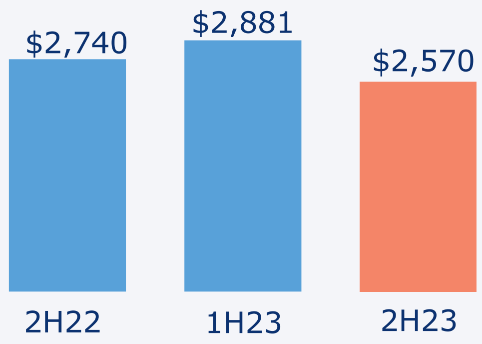
- Record FY23 new originations ($2.0b) 43% increase over FY22 ($1.4b)
- 5% increase in 2H23 v 1H23
- Driven by continued growth in auto finance lending as market share re-distribution continues

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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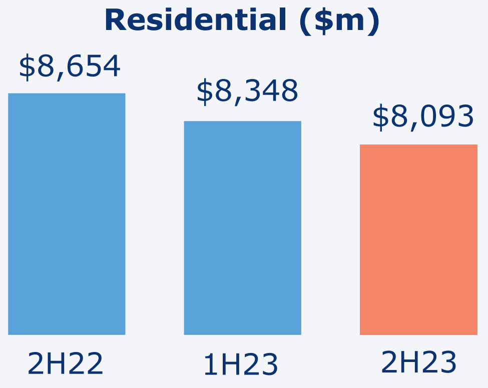
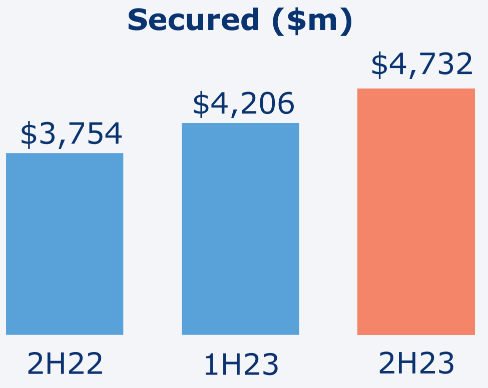
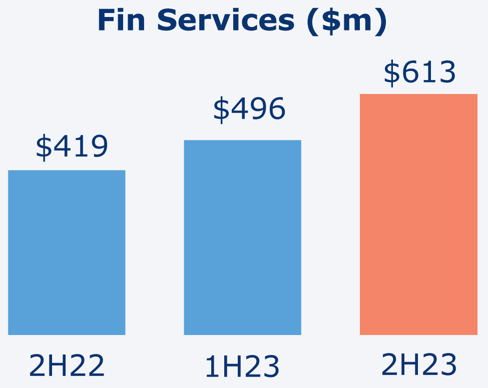
Segment Loan Portfolio



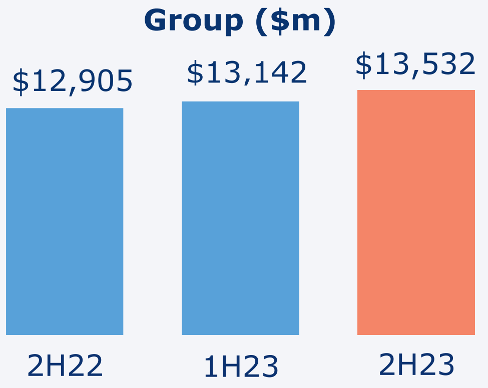
- Portfolio growth continues to be impacted by higher than trend discharges and amortisation



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



- Continued growth in personal loan portfolio



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

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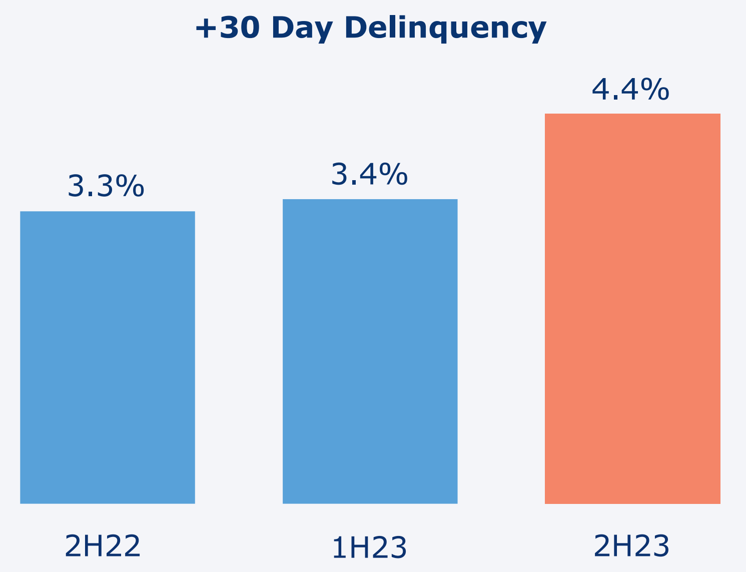
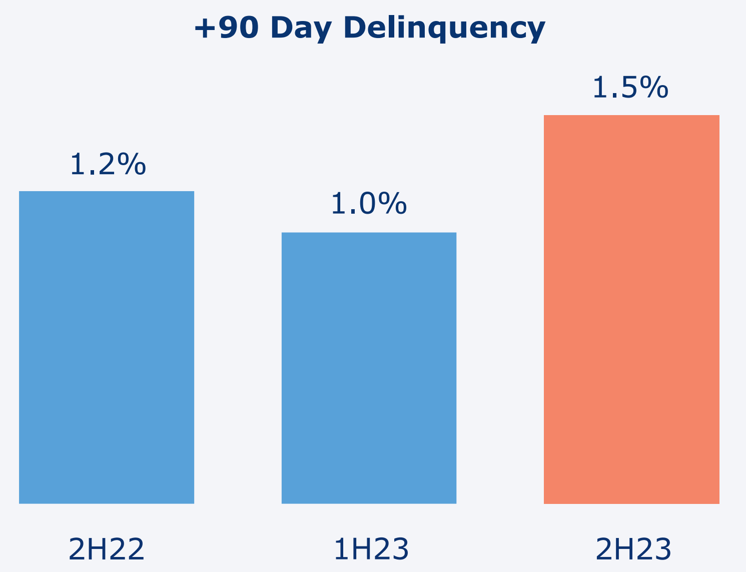
Portfolio Risk



- 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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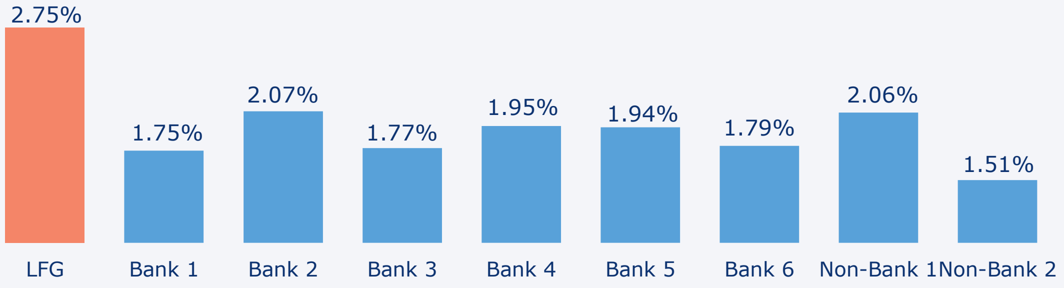
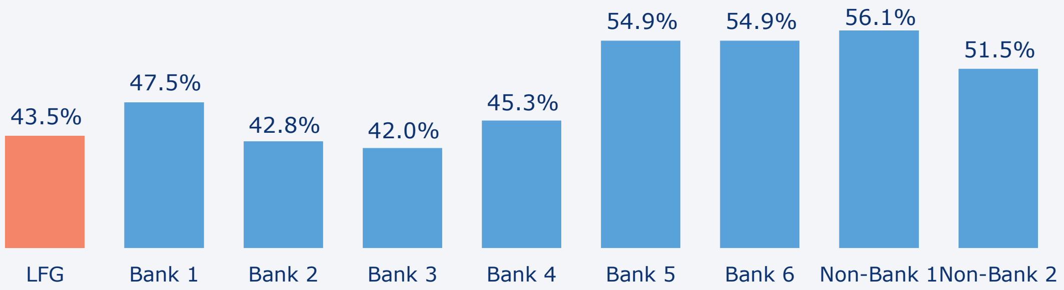
Relative Value Drivers

Net Interest Margin



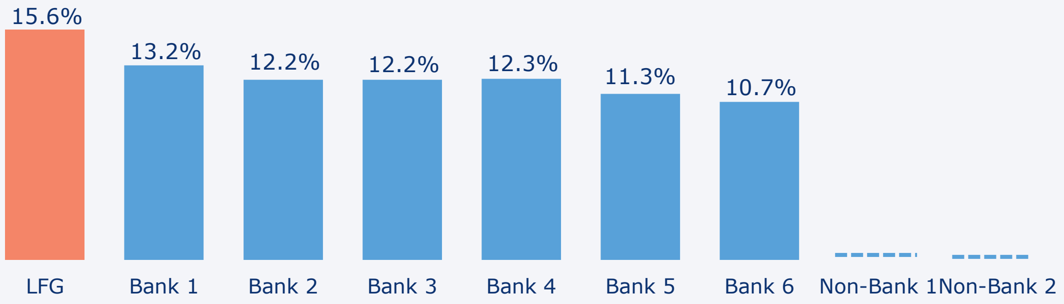
- Industry leading net interest margin

Cost to Income Ratio



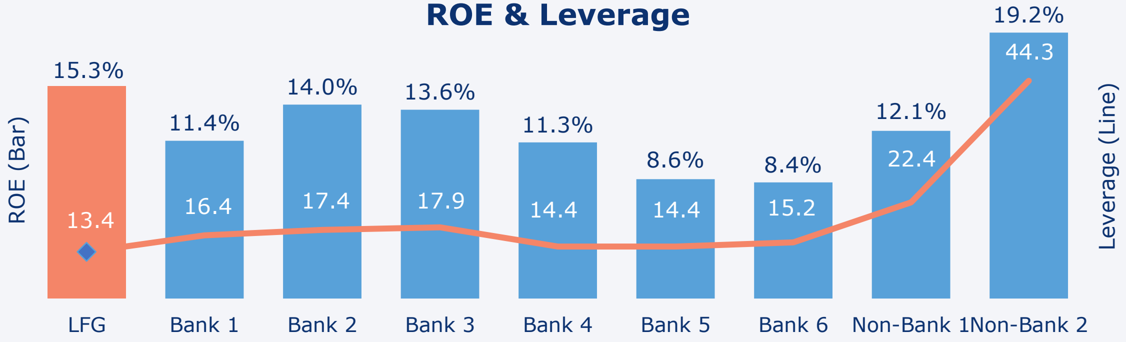
- Efficient cost management

Tier 1 Capital Ratio



- Bank-like capital strength

ROE & Leverage



- Highest ROE to Leverage ratio 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?

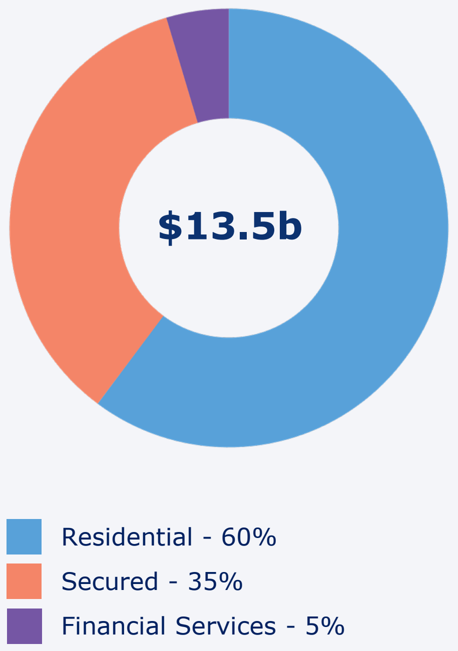
Liberty Financial

- 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



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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

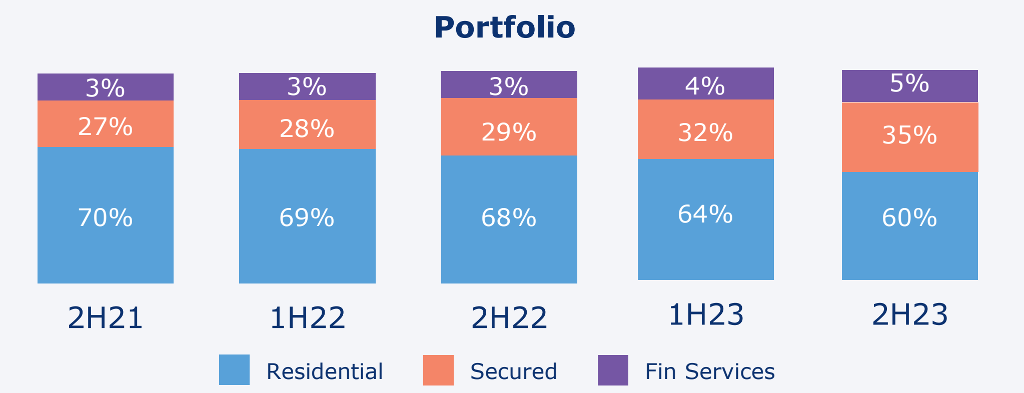
- A range of investment products for short and long-term investing in Australia and New Zealand

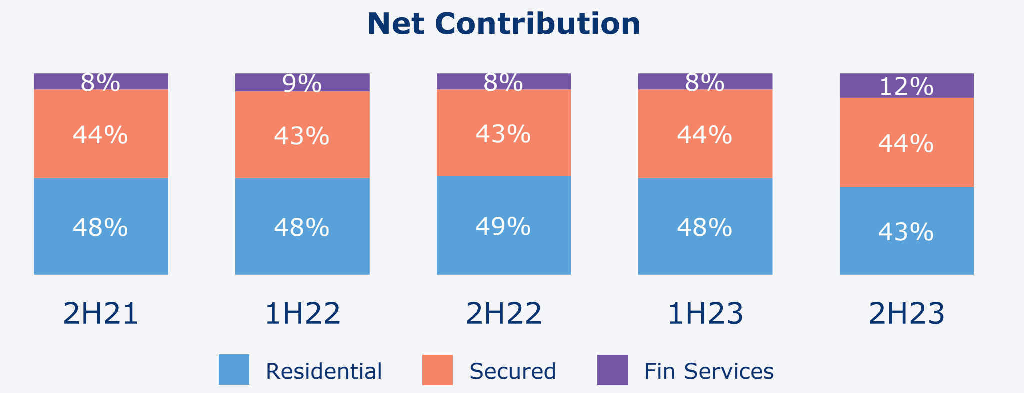
Real estate

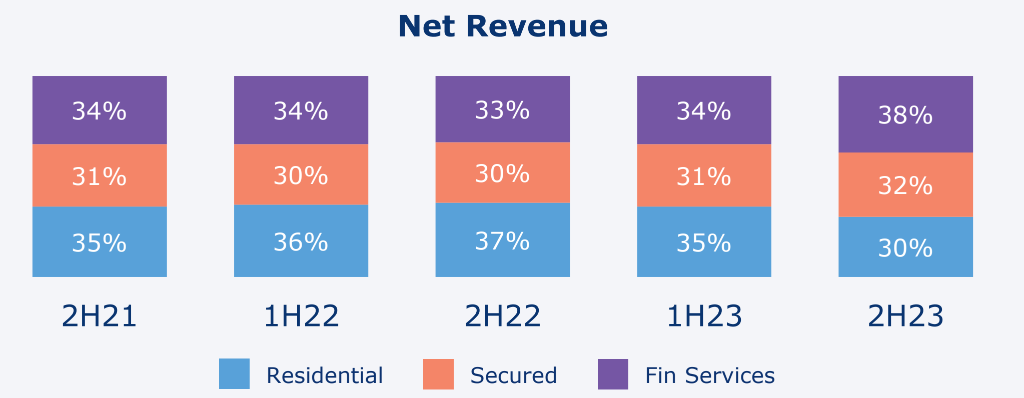
- Real estate services in New Zealand

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

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**

Disclaimer

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The information in this Presentation is current as at 28 August 2023. It is in summary form and is not necessarily complete. It should be read together with the Liberty Group results for the full year 30 June 2023.

Forward-looking statements

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