

# Liberty Financial Group FY24 Half Year Results



26 February 2024



# 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



**James Boyle**  
Chief Executive Officer

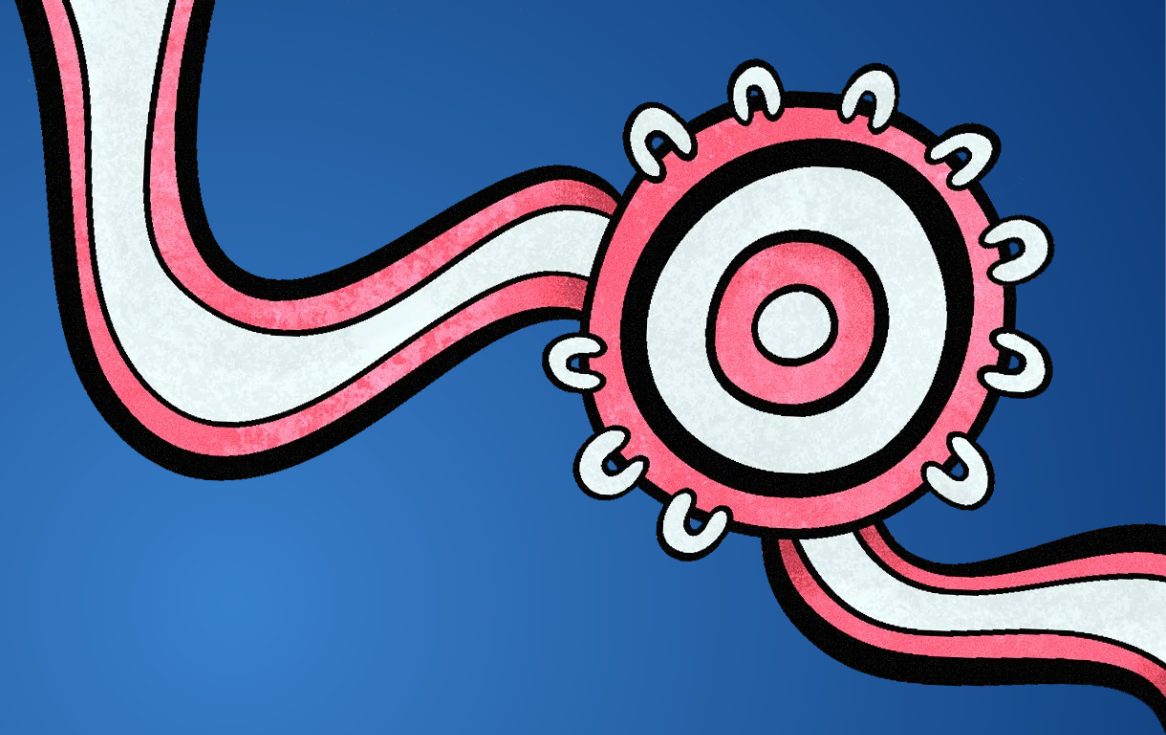


**Peter Riedel**  
Chief Financial Officer

# Agenda



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



# 01 Overview

# Overview

-  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 promotor 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

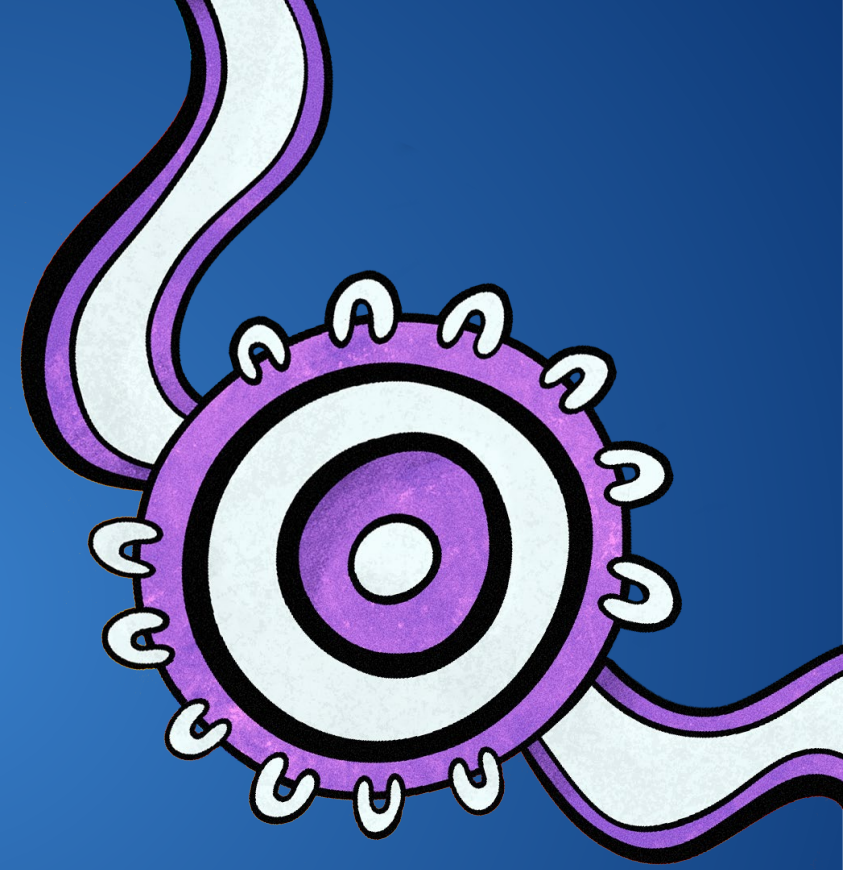
77 (79)  
(3%)



## Customer NPS

58 (55)  
+5%

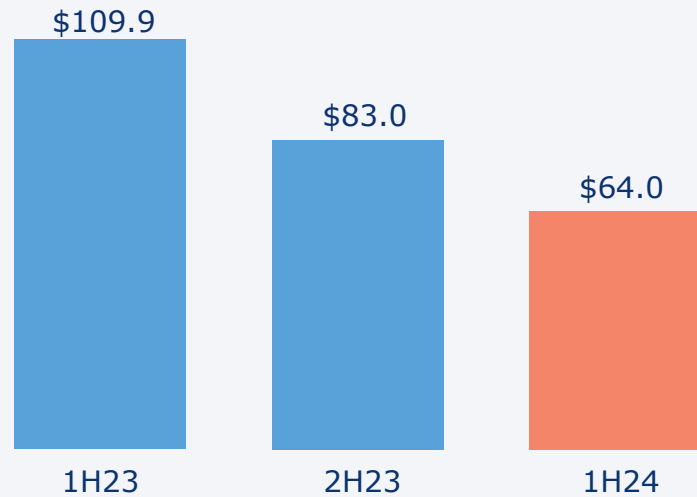




## 02 Results Analysis

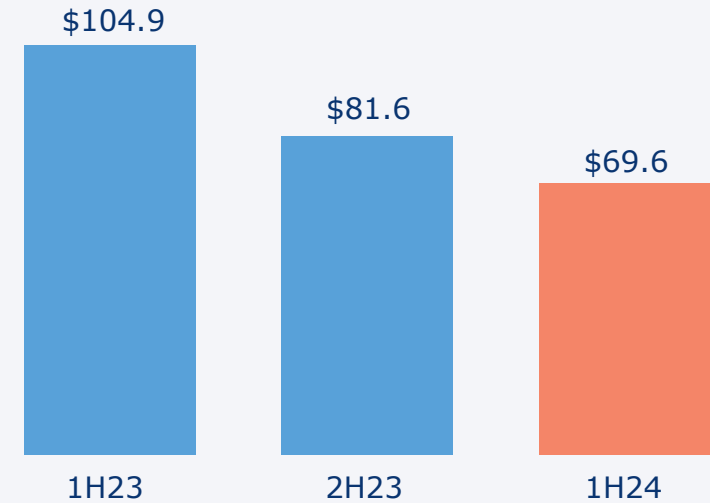
# Profit Performance

**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)

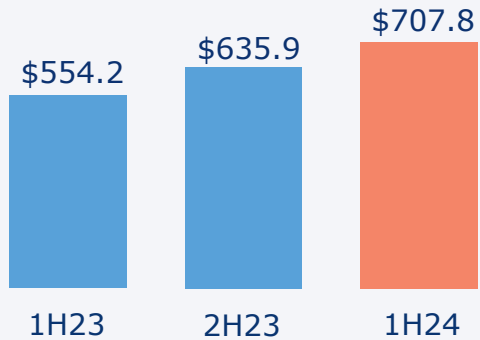
**Underlying NPATA (\$m)**



- ▲ 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

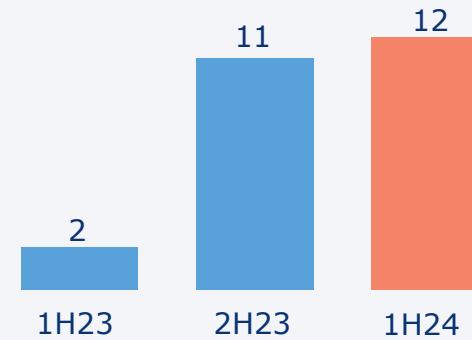
# Profit Drivers

## Total Revenue (\$'m)



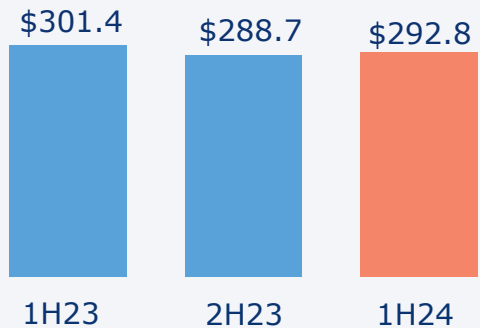
- ▲ Total revenue growth +28% (1H24 v 1H23) and +11% (1H24 v 2H23) driven by increased yield given RBA rate increases and higher average financial assets

## Loan Impairment (bps)



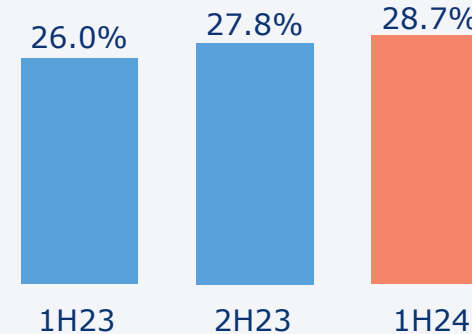
- ▲ Increase in specific provisions (5bp) and collective provision (7bp) to reflecting mix shift towards Secured and Financial Services assets
- ▲ Collective provision reflects life-time loss (higher than annual loss)

## 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

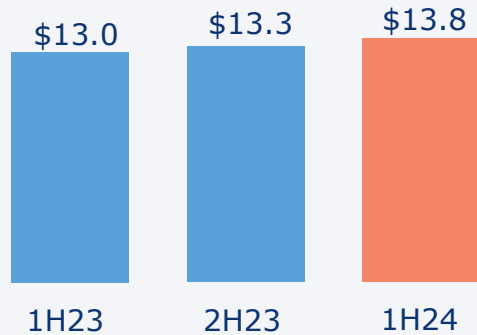
## Cost to Income (%)



- ▲ 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

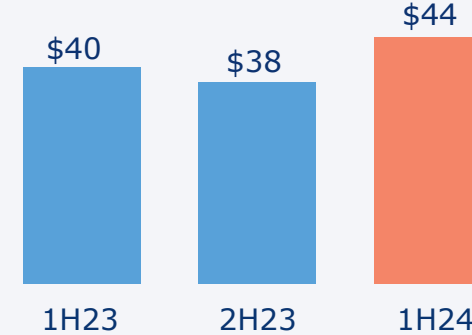
# Revenue

## Average Assets (\$'b)



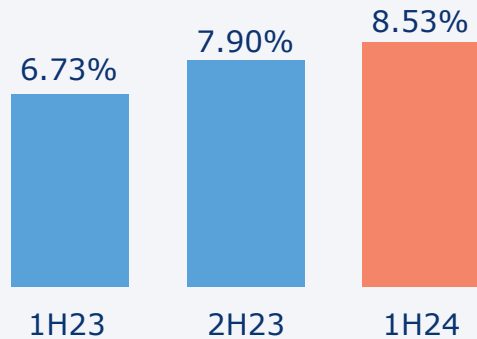
- ▲ Average asset growth 6% (1H24 v 1H23) and 3% (1H24 v 2H23) driven by Secured and Financial Services segments
- ▲ Record new originations \$2.9b (v \$2.6b 2H23 and \$2.9b 1H23)
- ▲ Loan discharges and prepayments improving but continue to influence Residential portfolio growth

## Lending Income (\$'m)



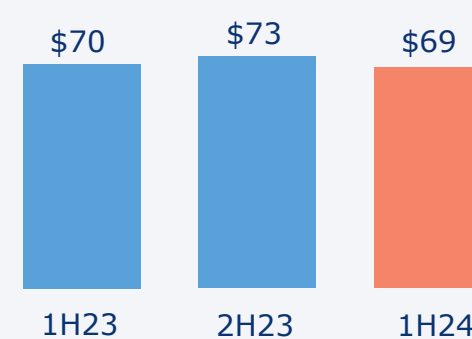
- ▲ Movement in lending income between periods largely consistent with movement in new loan origination volume

## 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)

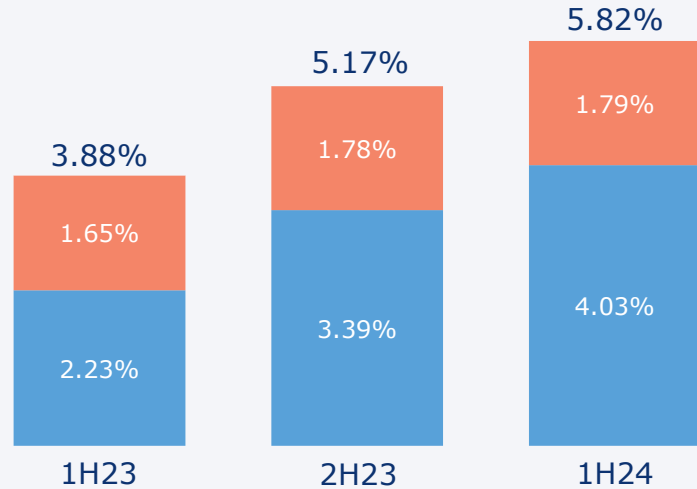
## Commission Income (\$'m)



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

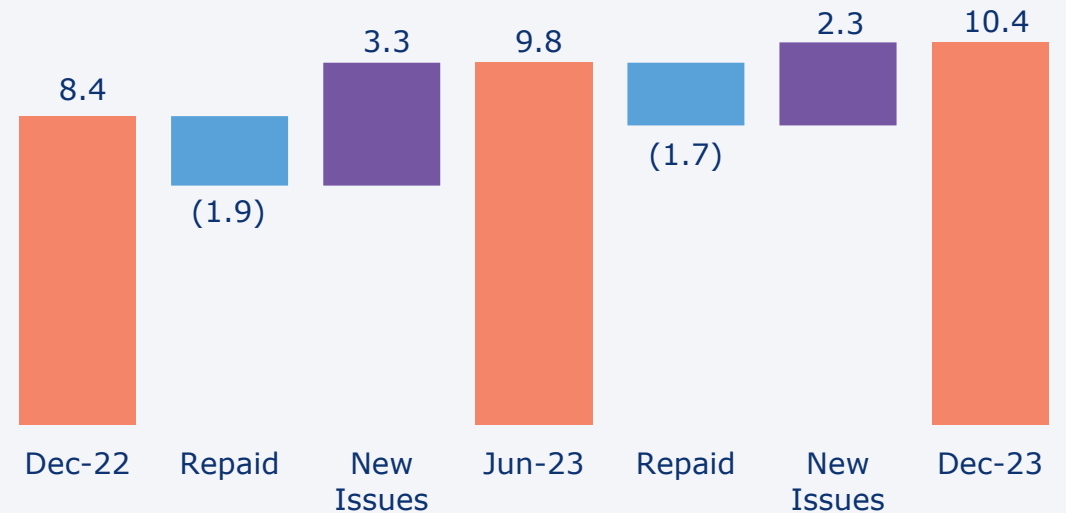
# Funding

## 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

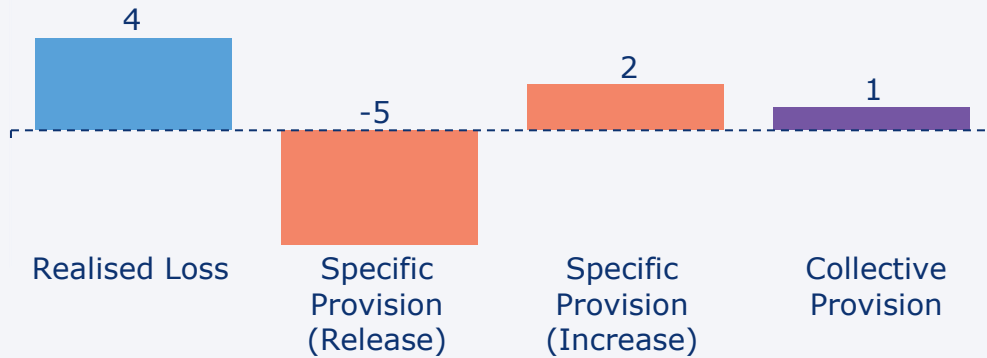
## Term Funding (\$b)



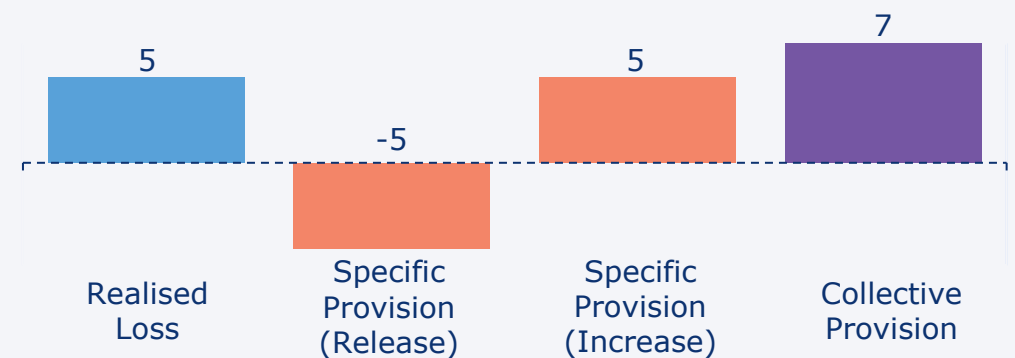
- ▲ 1H24 term issuance (\$2.3b) supporting Residential and Secured asset growth
- ▲ Established new auto wholesale facility in 1H24 (\$500m)
- ▲ Feb-24 MTN maturity (\$250m) to be funded from balance sheet resources with new MTN issue planned in Mar-24 subject to market conditions

# Loan Impairment

1H23 (2 bps)



1H24 (12 bps)

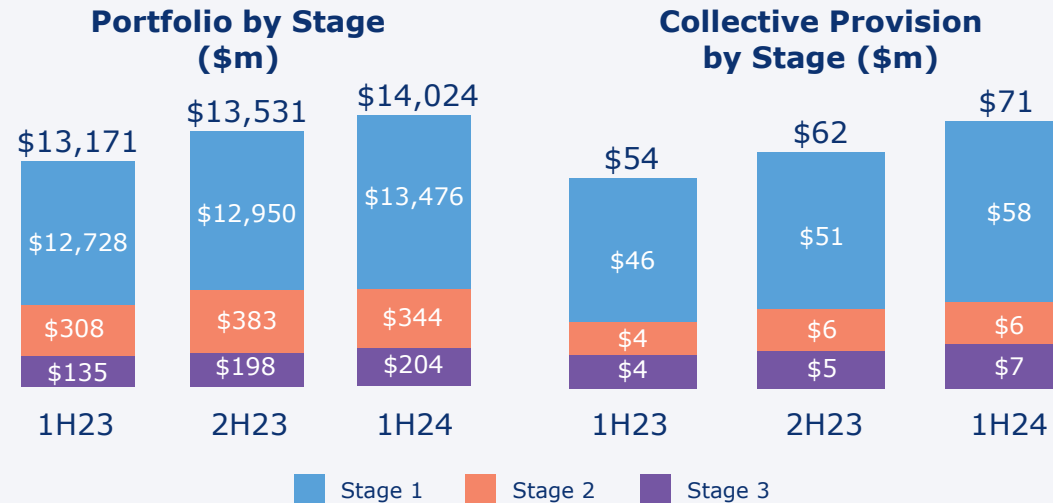


2H23 (11 bps)



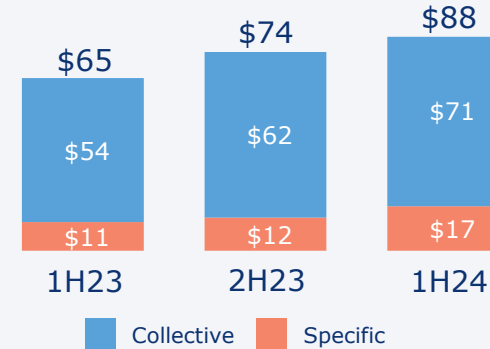
- ▲ Impairment expense 12bps in 1H24 demonstrating:
  - Stable realised losses and specific provision release each period
  - Higher specific and collective provisions reflecting mix shift towards Secured and Financial Services segments
  - Stable future expected losses by segment reflecting stable customer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

# Loss Provisions



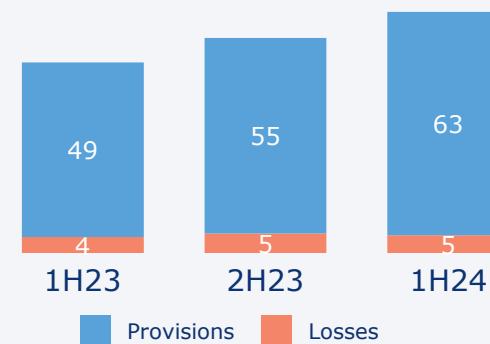
- ▲ Increase in Stage 2 and Stage 3 balances reflect higher number of customers seeking repayment variations
- ▲ Customers seeking support has reduced in 1H24 as interest rates stabilise
- ▲ 55% of customers (by balance) in Stage 3 making active payments at 87% of contract amount

## Provisions by Nature (\$'m)



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

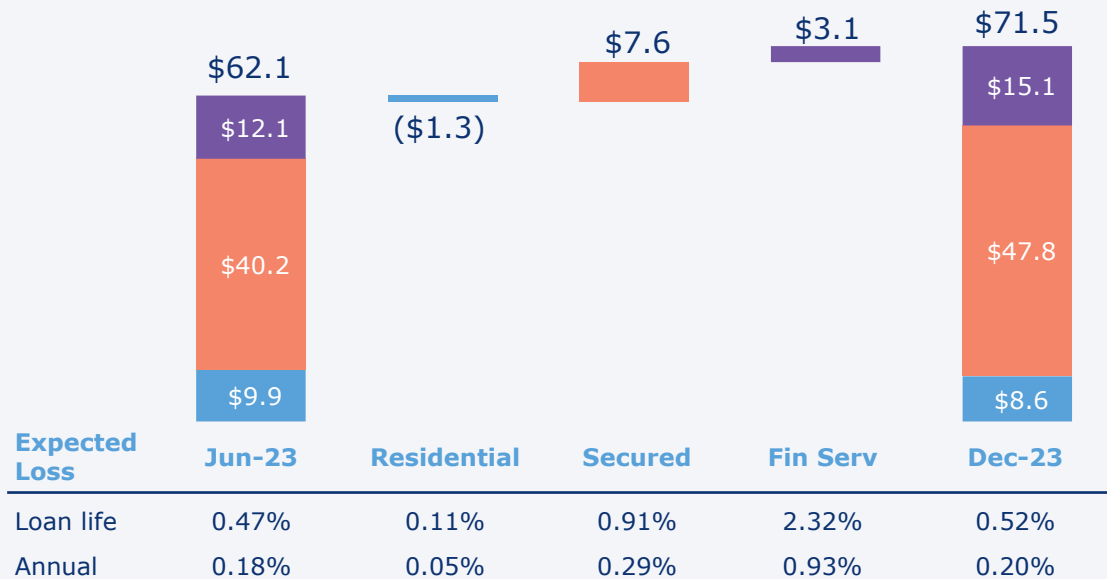
## Provision Coverage (bps)



- ▲ 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)

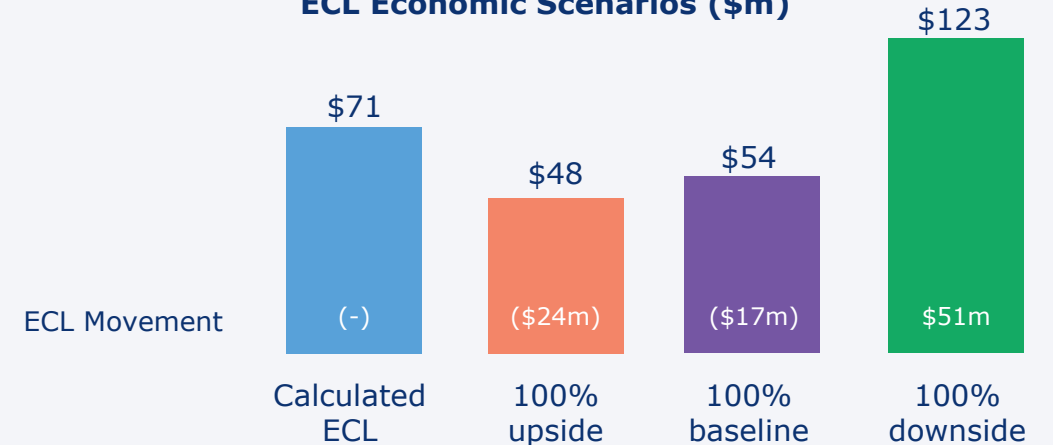
# Expected Credit Loss

## 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)



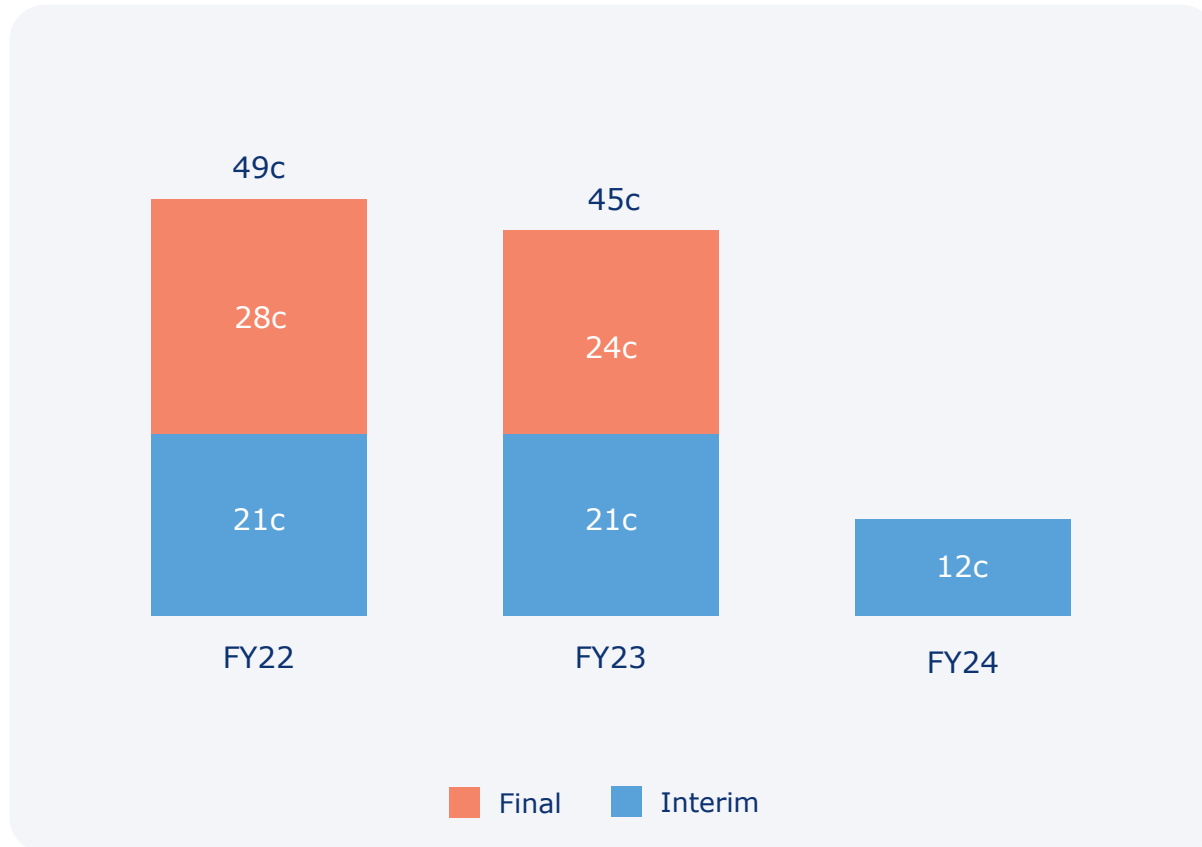


# Operating Expenses

Operating expenses (\$m)	1H23	2H23	1H24
Personnel	44	47	47
Other	34	33	37
<b>Cash expenses</b>	<b>78</b>	<b>80</b>	<b>84</b>
IP amortisation	6	6	6
<b>Total expenses</b>	<b>84</b>	<b>86</b>	<b>90</b>
<b>Cost to income (Liberty)</b>	<b>26.0%</b>	<b>27.8%</b>	<b>28.7%</b>
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)

# 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)
<b>Net assets</b>	<b>1,170</b>	<b>1,170</b>
<b>Leverage ratio</b>	<b>13.4</b>	<b>13.5</b>

- ▲ 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%)



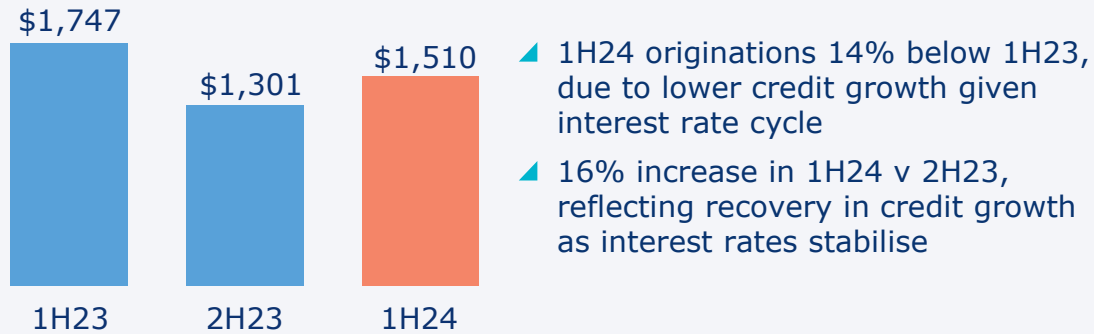
## 03 Business Update

# Business Update

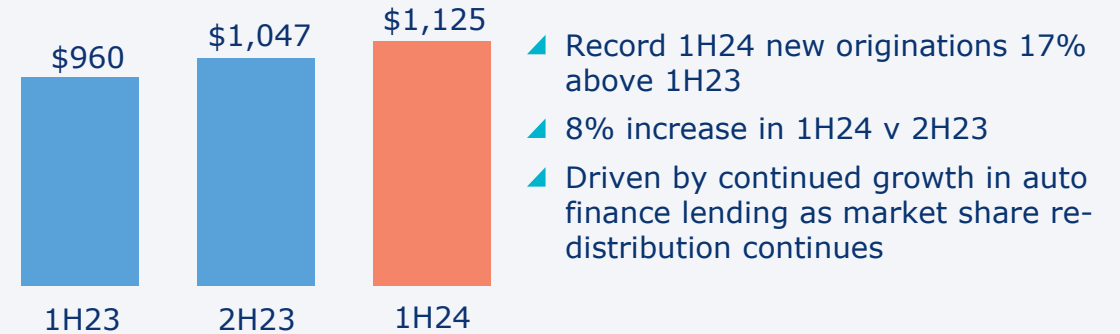
-  Higher group originations with continued portfolio growth
-  Residential originations recovering and discharges slowing
-  Continued growth in SME and SMSF lending
-  Auto momentum supported by new distribution partnerships
-  Fin Services benefitting from continued growth in PL lending
-  Continued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

# Segment Loan Origination

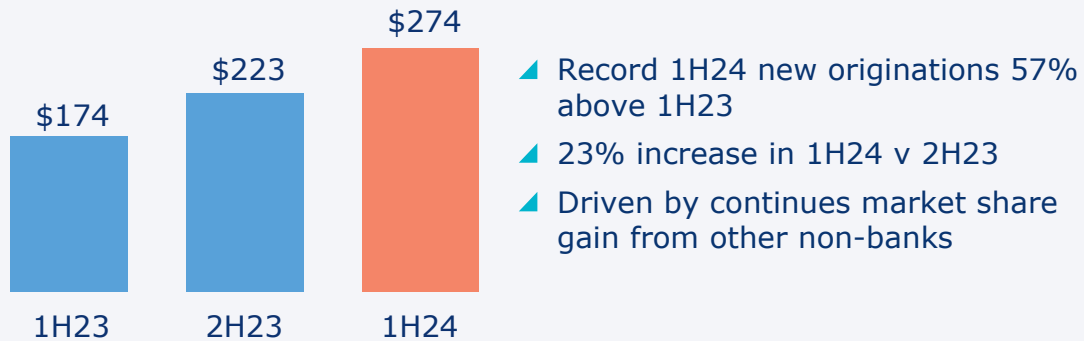
## Residential (\$'m)



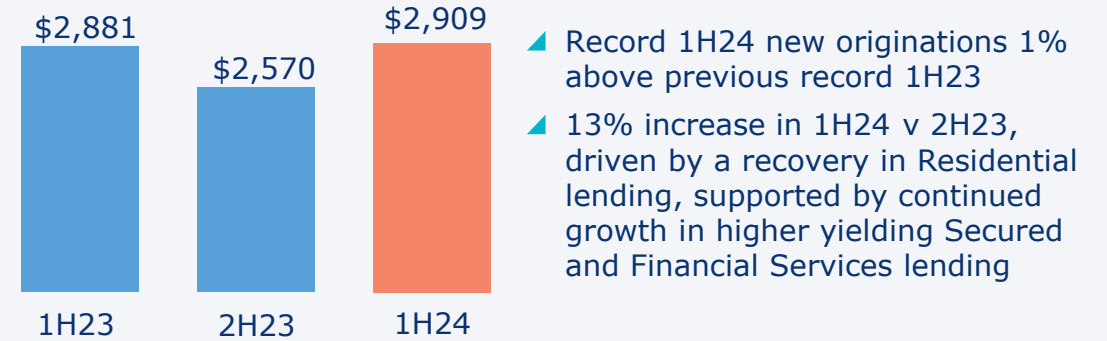
## Secured (\$'m)



## Fin Services (\$'m)

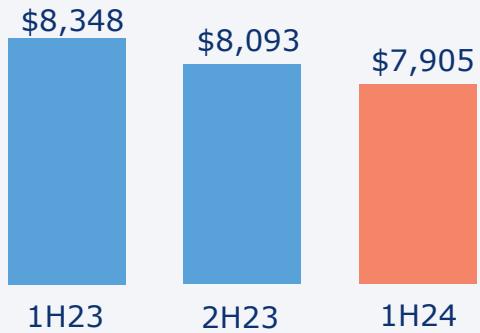


## Group (\$'m)



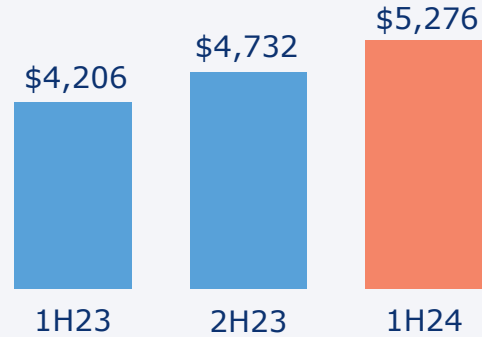
# Segment Loan Portfolio

## Residential (\$'m)



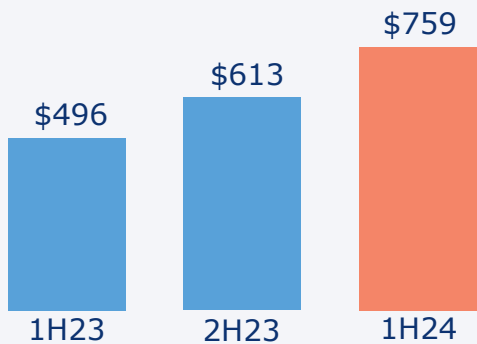
Portfolio growth continues to be impacted by higher than trend discharges and amortisation, although the trend is improving

## Secured (\$'m)



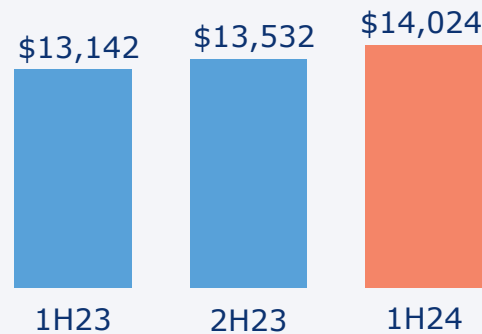
Continued growth in Secured loan portfolio driven by growth in auto finance lending, with steady discharges and amortisation

## Fin Services (\$'m)



Continued growth in personal loan portfolio

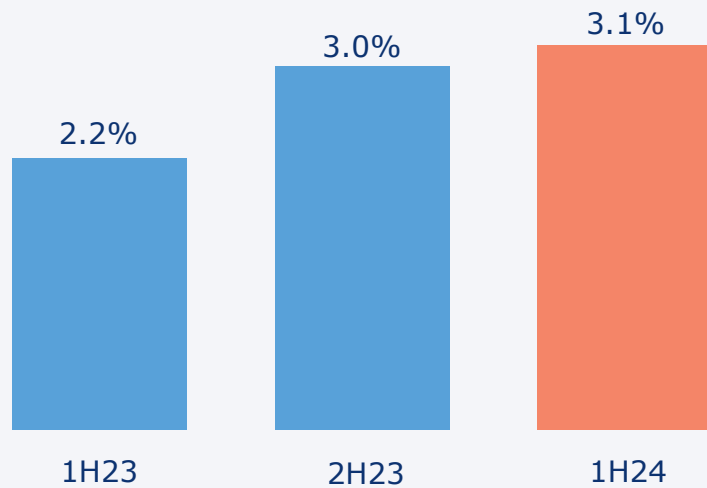
## Group (\$'m)



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

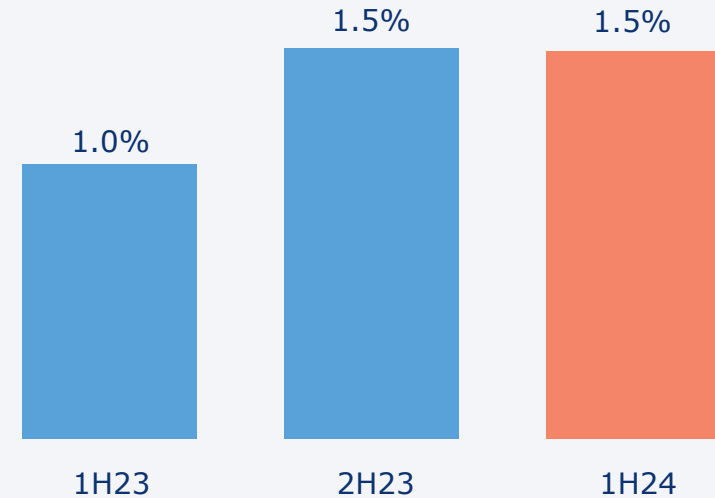
# Portfolio Risk

## +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

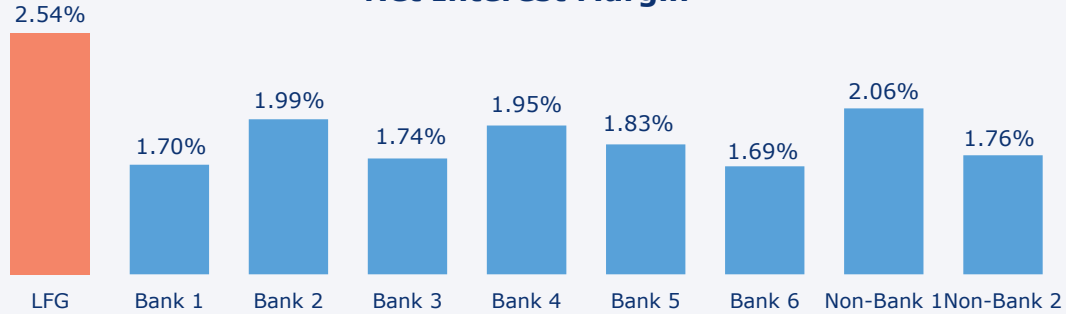


- ▲ Customers in repayment variation has stabilised
- ▲ Longer-dated delinquency showing early signs of improvement although risk remains



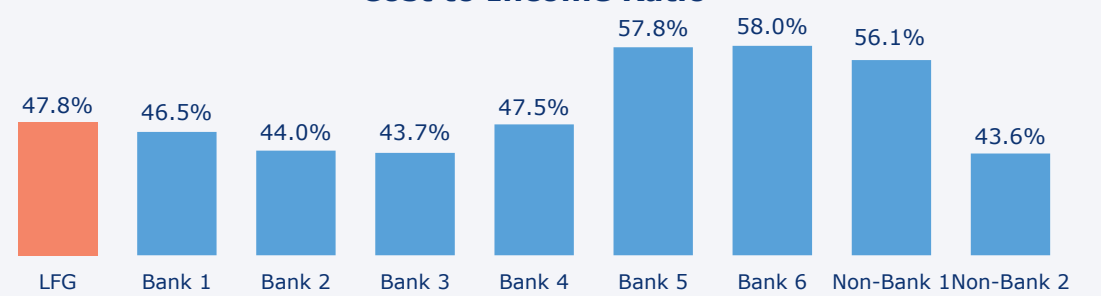
# Relative Value Drivers

## Net Interest Margin



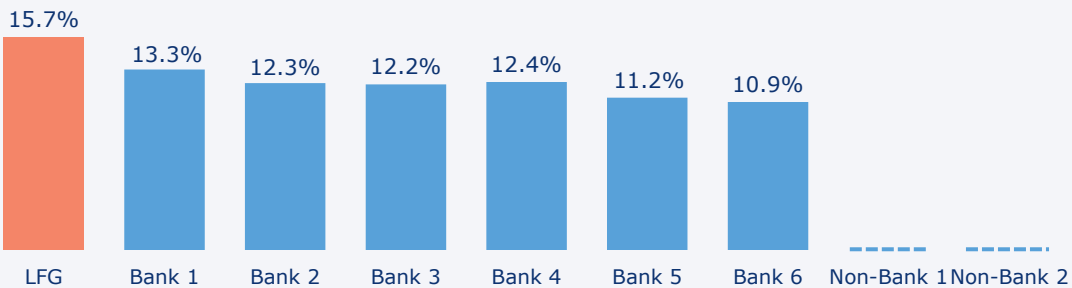
▲ Industry leading net interest margin

## Cost to Income Ratio



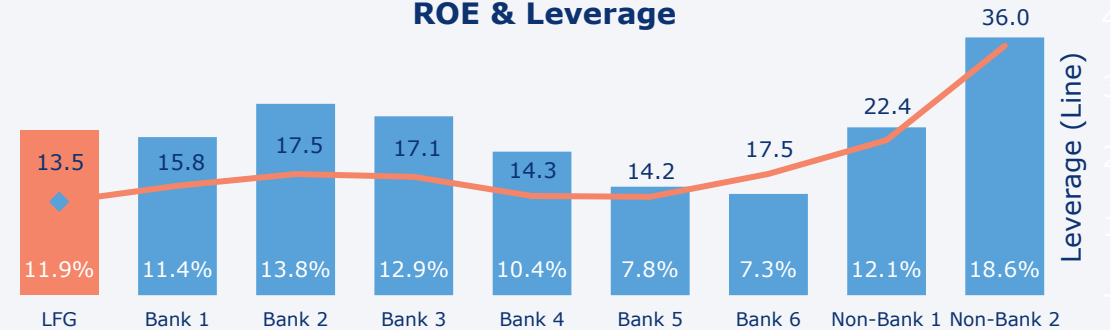
▲ Efficient cost management

## Tier 1 Capital Ratio



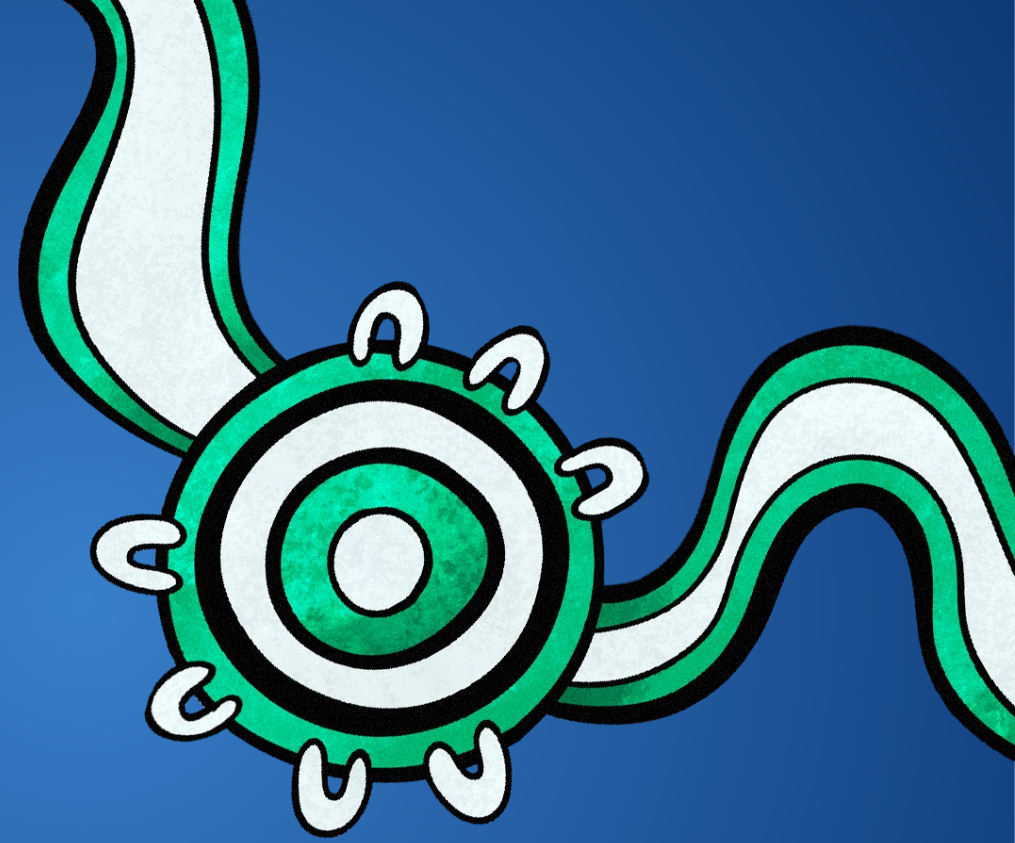
▲ Bank-like capital strength

## 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



## 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

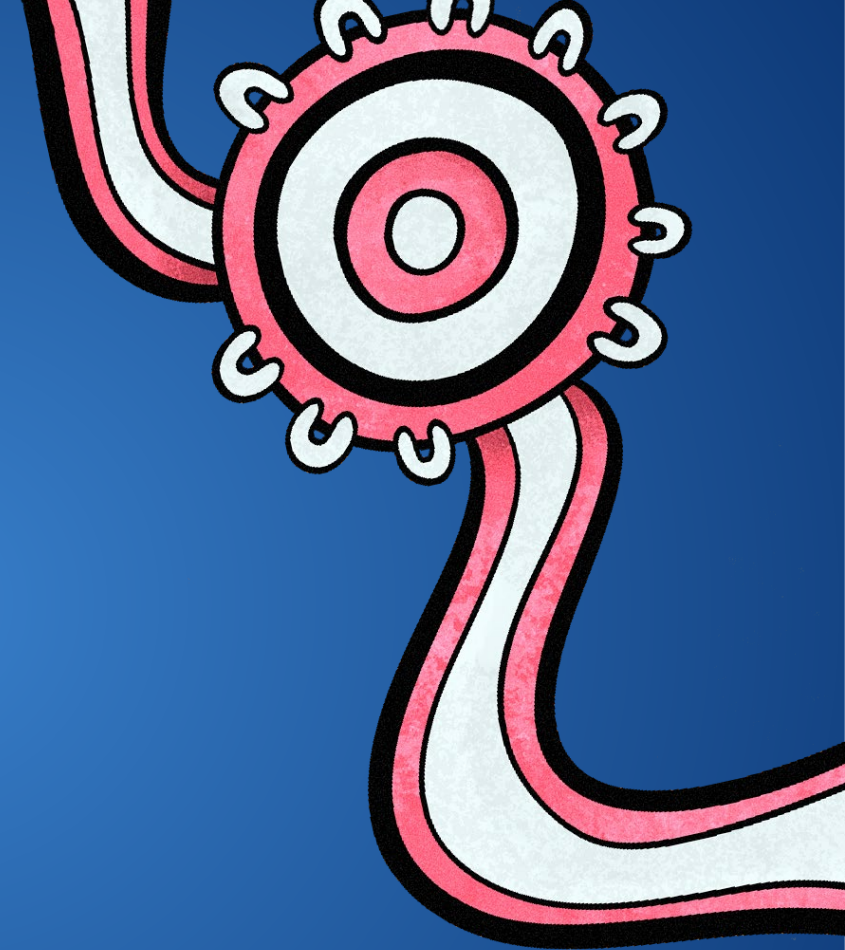


## 05 Summary

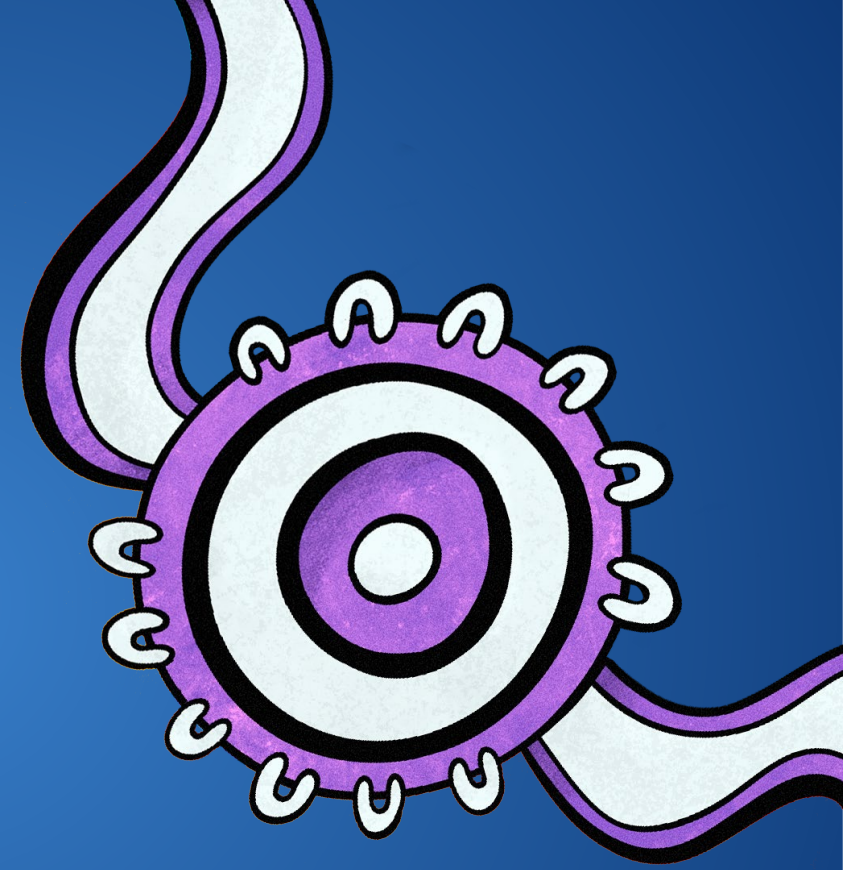
# Summary

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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



**06** Questions



Appendix

# Who is LFG?

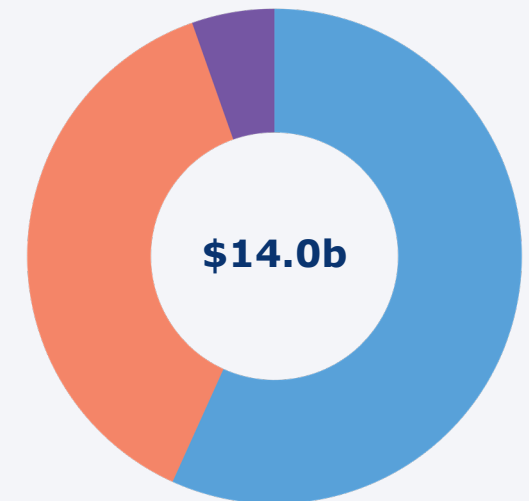
## Liberty Financial

- ▲ 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 - 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

## 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

- 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



Lending activities

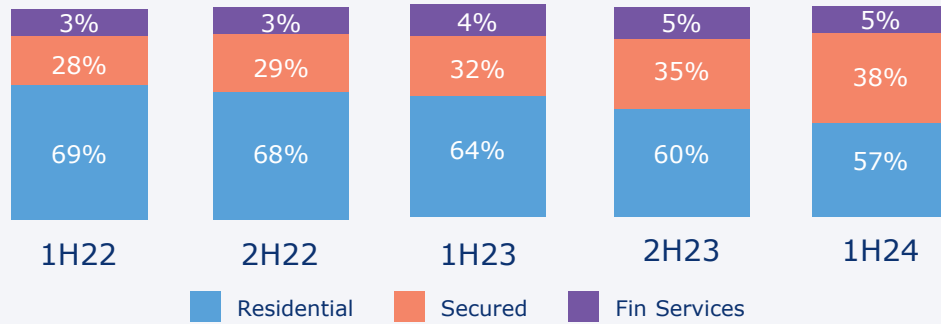
Insurance underwriting

Loan and insurance distribution

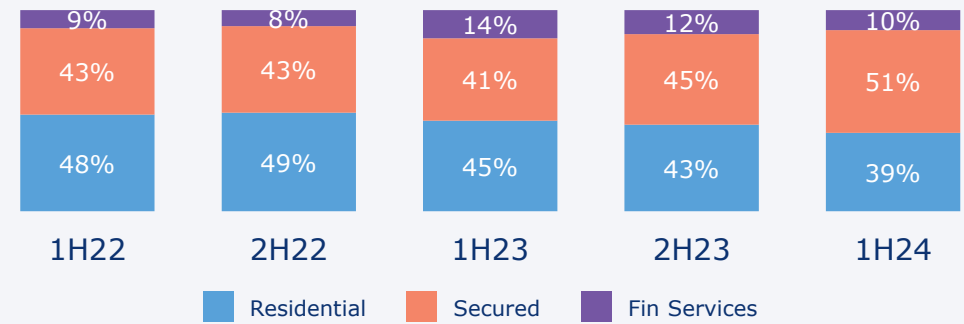
Investments

# Segment Performance

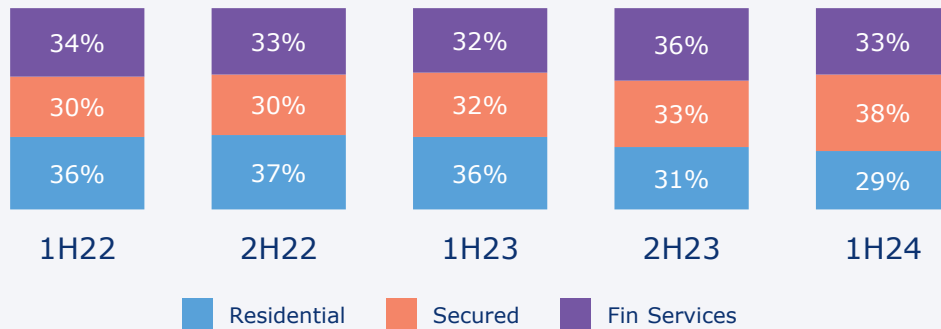
### Closing Portfolio



### 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
<b>Statutory NPATA</b>	<b>109.9</b>	<b>83.0</b>	<b>64.0</b>
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
<b>Underlying NPATA</b>	<b>104.9</b>	<b>81.6</b>	<b>69.6</b>

\$m	1H23	2H23	1H24
Statutory NPAT	104.0	77.1	58.1
IP amortisation	5.9	5.9	5.9
<b>Statutory NPATA</b>	<b>109.9</b>	<b>83.0</b>	<b>64.0</b>
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)	-
<b>Underlying NPATA</b>	<b>104.9</b>	<b>81.6</b>	<b>69.6</b>

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