

PETER RIEDEL, CHIEF FINANCIAL OFFICER

NONBANK IN FOCUS: **LIBERTY FINANCIAL**

Liberty Financial (Liberty) has a background in Australian nonconforming mortgages, but its lending book is now among the most diverse of the local nonbank lenders. The company stands on its sector-leading capitalisation and track record of high-quality risk management, as its Melbourne-based chief financial officer, **Peter Riedel**, explains.

Can you talk us through the basic shape of Liberty's financials?

■ For the financial year 2016, Liberty reported an increase in consolidated profit before tax of 11 per cent to A\$74 million (US\$55.9 million). As with previous years, no dividend was declared and as a result net equity increased to A\$414 million.

We recorded originations of A\$2.5 billion, an increase of A\$1.4 billion from the prior year. The growth was largely in prime residential lending, as a result of increased marketing and regulatory changes. Our total assets increased to A\$5.1 billion from A\$3.5 billion in 2015 while at the same time impairment charges were down by 54 per cent, to A\$4.1 million.

One of the things that comes through in this supplement is the range of business models used by Australian nonbanks. What makes Liberty's strategy successful?

■ From day one, Liberty recognised the need for sophisticated risk management, customer service, innovation in technology and an open and engaged culture. These four competencies created the platform for business growth, which has been built on an unequivocal and fundamental principle: to help people. Liberty's social purpose is to help people access credit to support and nurture their families and build wealth.

Liberty's business model was designed to help people by pioneering risk-based pricing, nearly 20 years ago.

This approach enabled the business to compete with the products offered by the major banks and also to offer an alternative.

The company deliberately adopted an organic growth strategy starting with residential mortgages and operating in a way that always protected the most critical asset – capital. Our growth has always been in step with equity, capital and funding requirements. The strategic plan has delivered a balanced portfolio of risk and return with prime and custom lending, which provides sustainable financial performance.

However, part of Liberty's 'DNA', and an ingredient of its success, is its preparedness to challenge the status quo and enter new markets by leveraging the company's now substantial technology capability.

Liberty's personal loan is a perfect example. We have developed and deployed the latest technologies to create the smoothest possible consumer experience. Application for a personal loan is through an easy-to-use, 24/7 online portal. It takes around five minutes to complete and the loan funds can be in the customer's bank account as soon as 60 minutes after approval.

Liberty places great value on its consistent ownership and the strong capital position built up over the years. What does this mean for investors and customers?

■ Liberty has built a capital position of unparalleled strength in the nonbank sector. This has led to the business

achieving a public investment-grade rating from S&P Global Ratings. The rating is underpinned by a risk-adjusted capital ratio of 15 per cent, which is comparable with Australia's better capitalised banks. The capital strength and investment-grade rating mean the business is resilient and can deliver sustainable performance for investors.

Liberty has developed its businesses organically – only using its own proprietary software, for instance. What is the strategic rationale behind this in-house approach?

■ We develop our own systems for three reasons. First, doing so enables us to create the smoothest customer experience. We extensively research users to design intuitive and fuss-free systems tailored to our products and to the solutions our customers seek.

Second, we can continuously improve any interface, platform or portal we develop in line with the evolution of our products and the requirements of our customers. This underpins our customer-service ethos.

Third, designing our own systems allows us to create a model that aligns customer outcomes and our risk-management culture. Having our own systems allows us to continuously monitor and manage our credit-risk assessments and pricing parameters and set appropriate servicing parameters for customers who get into repayment trouble. Being able to manage both these aspects on one platform results in best-in-class receivables performance. •

LIBERTY FINANCIAL PROFILE

SIZE OF LOAN BOOK	A\$5.1BN
MAKEUP OF LOAN BOOK	<ul style="list-style-type: none"> • PRIME RESIDENTIAL MORTGAGES: 70% • NONCONFORMING RESIDENTIAL MORTGAGES: 13% • SME MORTGAGES: 11% • CONSUMER LOANS: 5%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	<ul style="list-style-type: none"> • AUSTRALIA: 97% • NEW ZEALAND: 3%
OUTSTANDING DEBT ISSUANCE	<ul style="list-style-type: none"> • SECURITISATION: A\$2.4BN • SECURITISED WHOLESALE FACILITIES: A\$2.1BN EQUIVALENT • CP (INCLUDING ABCP): A\$600M • MTN: A\$100 M

About Liberty Financial

Liberty Financial (Liberty) is a mainstream speciality finance company that champions free thinking and provides fast and fuss-free solutions for customers.

Liberty operates in Australia and New Zealand. It provides a wide range of products and services including home, car, commercial, self-managed superannuation fund and personal loans, investment and deposit products, consumer-credit-insurance products – via LFI Group – and mortgage broking.

Liberty’s loan origination activity is supported by a multi-channel distribution strategy whereby products are offered through a wide range of third parties – including mortgage and motor-vehicle-finance brokers, financial planners, two networks of company-branded brokers (Liberty Network Services in Australia, with 110 brokers, and Mike Pero Mortgages in New Zealand, with 60 franchisees), and direct sales.

Liberty provides solutions to a wide range of customers, from people who could be serviced by mainstream providers to those who need or are searching for a customised solution. Since its formation in 1997, Liberty has consistently applied technological advances to pursue multiple markets through its customised risk-management and operational practices. Customised technology is not only necessary to properly conduct a diversified finance business but it also enables Liberty to design its financial products to effectively evaluate, arrange and manage solutions for a wide variety of customers.

Liberty deploys its own capital in its operations, thereby reducing financial and operating leverage. By aligning its interests with the long-term performance of its assets, Liberty is dedicated to deciphering the fundamental relationship between risk and return. In so doing, the company’s loan performance is best in its class. Its rated notes have never been charged off, downgraded or placed on negative watch.

Liberty has been able to develop a unique combination of capabilities in customer service, risk management, technology and culture to generate a competitive advantage and durable financial performance.

Liberty has a corporate issuer credit rating of BBB- (outlook positive) and a “strong” servicer ranking for prime

and nonprime mortgages, auto loans and commercial-mortgage servicing, all from S&P Global Ratings.

The company has advanced more than A\$20 billion in loans and securitised more than A\$15 billion via 39 transactions. It has more than 280 staff.

Ownership and capital structure

Liberty is a privately owned company. The shareholders who established the business are the same to this day. They have never received a dividend, preferring to reinvest the company’s earnings to fund future business growth. The shareholders’ commitment to the business is mirrored by long-tenured team members, many with more than 10 years’ service.

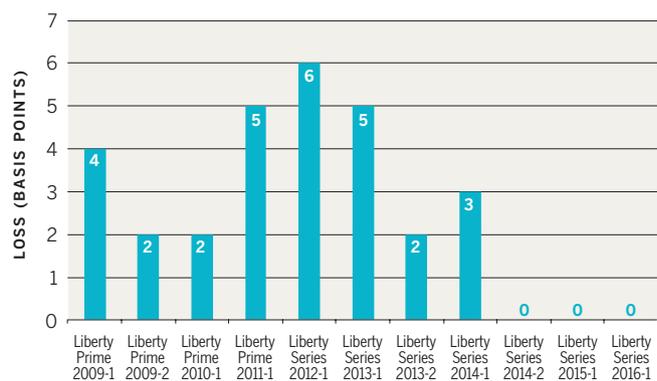
Notwithstanding its status as a private company, Liberty is overseen by an independent board of directors who possess decades of relevant financial-services experience.

Funding strategy

Liberty has established and maintains a flexible, durable and diversified funding programme. The company has multiple sources of funding: more than A\$400 million of equity capital, more than A\$3 billion of balance-sheet funding, a A\$600 million CP programme, a senior-unsecured funding programme (both of which are unique to Liberty as a nonbank), a retail-debenture programme in New Zealand and a retail managed-investment scheme in Australia.

Liberty’s term securitisation programme provides investors the opportunity to acquire fixed-income securities in prime and nonconforming RMBS, auto ABS and SME formats.

PERFORMANCE HISTORY



SOURCE: LIBERTY FINANCIAL OCTOBER 2016

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