LIBERTY FINANCIAL
FACT SHEET
OCTOBER 2024

IAM
INCOME ASSET MANAGEMENT

Issuer Outline

Liberty Financial Pty Ltd provides financial services. The Company offers home, car, personal, and business loans and other financial services. Liberty Financial serves customers in Australia.

Sector:	Financial
Sub-Sector:	Diversified Financial Services
Country:	AU
Ownership:	Public

Key Financials (AUD m)

LTM (30 June)	06/2024	2023
Interest Income	1,458.9	1,229.8
Non-Interest income	3.0	2.8
Operating Income	1,461.9	1,232.7
Finance Expense	1,108.0	832.3
Profit After Tax	115.3	181.1
Financial Assets	14,638.1	13,534.5
Total Assets	16,305.7	15,692.4
Total Borrowings	14,626.9	14,081.6
Total Liabilities	15,109.9	14,522.1
Total Equity	1,195.9	1,170.4
Net Interest Margin (%)	2.51	2.76
Cost to Income (%)	28.0	29.1
Non-Performing Loans (%)	0.25	0.13
Tangible Common Equity Ratio (TCE) (%)	5.9	5.9
Risk-Adjusted-Capital (RAC) Ratio (%)	15.7	15.6
Leverage Ratio (x)	13.6	13.4

Issuer Credit Rating & Outlook

Agency	Rating	Outlook
S&P	BBB	STABLE
Moody's	-	-
Fitch	-	-

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Summary Bond Details

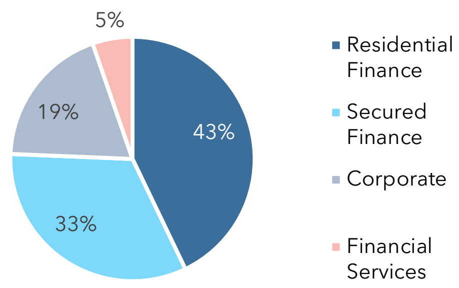
ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date	Issue Rating (S&P/Moody's/Fitch)
AU3FN0076188	AUD250m	Sr Unsecured	3mBBSW + 3.80%[1]	Quarterly	16 March 2028	16 March 2028	BBB / - / -
AU3FN0085338	AUD250m	Sr Unsecured	3mBBSW + 3.75%	Quarterly	8 March 2029	8 March 2029	BBB / - / -
AU3FN0067914	AUD250m	Sr Unsecured	3mBBSW + 3.10%	Quarterly	5 April 2027	5 April 2027	BBB / - / -
AU3FN0060505	AUD200m	Sr Unsecured	3mBBSW + 2.55%[1]	Quarterly	25 May 2026	25 May 2026	BBB / - / -
AU3FN0059200	AUD200m	Sr Unsecured	3mBBSW + 2.45%[1]	Quarterly	17 March 2025	17 March 2025	BBB / - / -

[1]Coupon step up upon issuer rating downgrade.

Revenue and Asset Composition

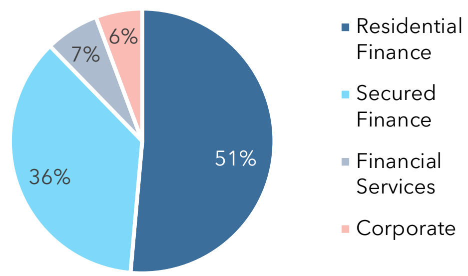
Revenue	AUD m	%
Residential Finance	612	43%
Secured Finance	468	33%
Corporate	272	19%
Financial Services	76	5%

Revenue Composition (%)



Assets	AUD m	%
Residential Finance	8,384	51%
Secured Finance	5,919	36%
Financial Services	1,074	7%
Corporate	928	6%

Asset Composition (%)



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IAM Credit View - Neutral Recommendation

We have a neutral recommendation on non-bank lender Liberty Financial (LFG). Economic data is supporting an improved outlook for credit generation for the non-bank lender, with the peak in interest rates boding well for future funding costs and asset quality. As a result, Liberty expects NIM to stabilise at current levels. While new earnings headwinds are emerging (through the non-bank sector), Liberty remains a profitable entity with solid cashflow generation and robust capitalisation.

From a relative value perspective, Liberty stands up well against the bank and non-bank sector and their senior unsecured bonds trade at a discount to the regulated bank sector. Some bonds have a coupon step up upon issuer downgrade which is positive for investors. However, it is important to check the individual documentation as not all their bonds have this feature.

In relation to FY24 results, underlying net profit after tax and amortisation (NPATA) fell 29% to $132 million for the year but declined 24% on 2H23 to $62.4 million in 2H24, or -10% versus 1H24. The overall weakness can be attributed to rising costs across funding, impairment provisions and commissions. This was despite solid asset growth during FY24 with new originations up 5% to $5.7 billion and average financial assets up 7% to $14.1 billion. Breaking this down, net interest margin (NIM) compressed 25bp to 2.51% in FY24 and 9bp to 2.47% in 2H24, driven by a higher cost of funding (up almost 100bp in 2H24). Positively, however, asset growth supported the top-line and net revenue remained broadly flat (-1%) both in FY24 ($583.3 million) and 2H24 ($290.5 million). While the cost to income ratio deteriorated 110bp to 28.0% in FY 24, it came down to 27.3% in 2H24 which represented an improvement of 50bp from 2H23 and 140bp from 1H24. Loan impairment expense (as a percentage of average financial assets) also rose to 25bp (+13bp versus FY 23) due to higher specific (impaired loans) and collective (shift towards secured and financial services) provisions.

Liberty remains robustly capitalised. The company could certainly operate with a more aggressive capital policy, but management chooses not to. This is one of the key tenets to our ongoing credit comfort and further supported by a conservative dividend policy setting (payout ratio of 66% in FY24 versus 75% in FY23). Based on S&P Risk Adjusted Capital (RAC) ratio, Liberty is very adequately capitalised. The RAC ratio was 15.7% in FY 24 (up 10bp on FY 23). The leverage ratio (total assets divided by total equity) was 13.6x in FY 24 (versus 13.4x in FY 23). Liberty maintains conservative assumptions regarding its expected credit loss (ECL) profile. It has an 80% baseline case, 15% downside case and 5% upside case in terms of probabilities.

We highlight that of the $14.6 billion portfolio, 55% is residential, 39% is secured non-residential, and 6% is financial services. It is important to recognise that Liberty is not in the business of providing unsecured consumer credit (i.e. credit cards), and that collateral represents the bedrock of the portfolio. This has resulted in consistently low realised losses. The group experienced an uptick in delinquencies in 2H24. As a proportion of the portfolio, 30+ days past due delinquencies were 3.79% in 2H24 (3.14% in 1H24 and 2.97% in 2H23) and 90+ days past due delinquencies were 2.11% in 2H24 (1.45% in 1H24 and 1.47% in 2H23). Importantly, however, most customers (78%) in the 90+ day delinquency bucket is underpinned by property security at reasonable loan to value ratios (c.50-80%). This was matched by higher provisioning over the period with coverage (as a percentage of the loan portfolio) reaching 67bp in 2H24 (versus 63bp in 1H24 and 55bp in 2H23). This represents 6x coverage against annualised 2H24 realised losses (12bp).

While coverage of total provisions ($98 million) to impaired loans ($309 million) fell to 32% (versus 43% in 1H24 and 37% in 2H23), we take comfort in Liberty's low realised losses.

Liberty relies on several funding sources, noting it does not benefit from low-cost deposits like ADIs. Term funding importantly makes up $10.4 billion of the capital stack. The importance here, is that it is term funding, meaning that it is not subject to the common funding mismatch faced by banks who lend long and borrow short. This term funding consists of A-MTNs, RMBS, ABS and warehouse facilities. In FY24 the group raised $3.8 billion and increased wholesale limits by $1.8 billion to support its record loan originations of $5.7 billion. This included the successful refinancing of a $250 million A-MTN in February/March 2024. Available liquidity totalled a healthy $5.2 billion at balance date (including $796 million of unrestricted cash). We have credit comfort in the group's liquidity profile, noting that Liberty has an unblemished debt capital markets record, is a regular issuer and benefits from the systemic support that the Australian government has shown to the securitisation funding markets.

Strengths of Liberty Financial

- Sound Capital Position. Liberty is well capitalised. This provides a significant loss absorption cushion in addition to earnings and loss provisioning which are the primary defences against loan impairments.
- Maintenance of Investment Grade Rating. Liberty management remains committed to maintaining its investment grade rating (currently rated BBB by S&P), which is supported by maintaining a healthy risk-adjusted-capital (RAC) ratio.
- Lower Regulatory Controls than ADIs. Not coming under the supervision of the Australian Prudential Regulatory Authority (APRA), places fewer cost imposts and hurdles on non-bank lenders than banks. Offsetting this is the void of operational oversight.
- Historical government funding support. The Australian Office of Financial Management (AOFM) has twice (during the GFC and COVID) come to the aid of the securitisation market to ensure a reliable flow of liquidity when funding has faded.

Weaknesses of Liberty Financial

- Lack of Regulatory Oversight. Liberty is not a regulated ADI, so it is not supervised by APRA as banks are. regulatory oversight and requirements to meet minimum, capital, funding, and liquidity and reporting sta can provide an additional layer of comfort.
- Non-Prime Exposure. Liberty has been increasing its exposure to prime loans, but a meaningful exposure higher risk non-prime and unrated loans (~30% at 30 June 2024). As the group increases its exposure to yielding, non-residential lending this could progressively change the composition of the portfolio's credit
- Non-bank funding. Liberty is not an ADI, so it does not have access to cheap customer deposits like its ba competitors, nor did it benefit from the "free" TFF. This is partly offset by the attractive length of the grour funding structure.
- Uncertain Macroeconomic and Geopolitical Environment. Australia, like other western economies, is the s to strong inflationary forces and rapid rise in interest rates which pose risks to economy and consequently quality. Supplementary risks include that of geopolitical tensions.

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INCOME ASSET MANAGEMENT

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