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**Pepper's 2016 Adjusted NPAT of \$61.0m,
up 26% on prior year**
Pepper's strategy is delivering strong earnings growth

Highlights

- Statutory NPAT of \$61.6 million
- Assets Under Management (AUM) of \$52.4 billion, up 15%
- Total income of \$413.2 million, up 36% (CY15: \$304.3 million)
- CY16 Adjusted NPAT of \$61.0 million, up 26% (CY14: \$48.6 million)
- Fully franked final dividend of 5.4 cents per share (cps)
- Strong growth platform with:
 - Record originations via multiple channels across Pepper's different geographies
 - Recurring installed base of contractual third-party loan servicing income
 - Continued investment in new business opportunities – both organic and via acquisition

Pepper Group Limited (Pepper; ASX:PEP), a diversified financial services firm, today announced its results for the 12 months ended 31 December 2016.

Pepper reported adjusted net profit after tax of \$61.0 million and a statutory net profit after tax of \$61.6 million for the year ended 31 December 2016.

Commenting on the strong result, Pepper's Co-Group Chief Executive Officer, Patrick Tuttle, said

"Pepper's strong track record of delivering double digit profit growth continued in 2016 with Adjusted NPAT up 26% on last year. This is being achieved organically through record loan originations in Australia and South Korea, along with continued growth in recurring earnings from our pan-European servicing platform.

Our 2016 result also confirms the strong and emerging profitability of Pepper Savings Bank in South Korea, coupled with a continuing and meaningful contribution from our investment in the Prime Credit business in Hong Kong and China.

The strategic acquisitions that we have made over the past 3 to 5 years are also starting to bear fruit as we see our residential and consumer lending businesses in the UK, Ireland and Spain building scale.”

Strong growth in AUM of 16% across all countries

Pepper increased its combined lending and servicing assets under management (AUM) by 15% to \$52.4 billion at the end of CY16, up from just \$4.0 billion in 2012. This represents a compound annual growth rate (CAGR) of 91%.

Each of Pepper’s operating regions in Australia, Asia and Europe added to this growth.

Australia

Australia continues to generate record loan origination volumes across its residential mortgage and auto finance lending portfolios,

The Australian residential mortgage lending business delivered total new originations of \$2.53 billion in 2016 up 36%. By way of comparison, system growth across the entire Australian residential mortgage market in 2016 was around 6.5%. These mortgage volumes have largely been delivered through Pepper’s three core distribution channels, namely mortgage brokers, white label partners and direct to consumer.

Arrears remain at record lows due in part to Pepper’s disciplined credit exposure as well as low interest rates.

Patrick Tuttle said:

“The reason for our record originations and above system growth in Australia is simply because more consumers and brokers are recognising the competitiveness and breadth of Pepper’s mortgage product range, and our position as one of the country’s leading non bank lenders.”

In asset finance, where the landscape for auto loans in particular is frequently changing, Pepper’s strategy of positioning itself as a challenger brand to the larger players has led to record originations of \$673 million in this division, up from \$398 million a year ago.

Pepper’s offering continues to resonate amongst auto and commercial finance brokers and motor dealers, with many seeking to add Pepper to their lending panels.

Lending growth has directly benefited from a substantial and continuing investment in brand development via our retail offering, Pepper Money, to increase consumer awareness.

Asia

The exponential growth experienced in Pepper's South Korean business, particularly in the past 6 months, meant it was a key contributor to Pepper's annual profit result and has given rise to a new segment in the Group's financial reporting.

2016 has been a transformational year for Pepper's South Korea operations with the business becoming highly profitable during the year.

Originations in residential mortgages and consumer lending grew 52% year on year, with 2016 levels reaching \$1.28 bn.

Speaking on Pepper's investment in South Korea, Patrick Tuttle said:

"The investment we made, back in 2013, in buying a small Mutual Savings Bank and implementing Pepper's pricing for risk methodology across its product suite has taken the business from 56th out of 79 banks in 2013, to 11th this year, based on portfolio size."

A 12% equity stake in Prime Credit, who are a specialist consumer finance lender in Hong Kong and Southern China, saw Pepper earn a \$9.0m share of profit, up from \$5.9m in 2015.

Europe

Pepper Group's third party asset servicing AUM grew 12.3% to \$46.6 billion in 2016, and the prospects for growth in 2017, via portfolio trades and outsourcing mandates across Europe remain positive.

The emergence of challenger banks in the UK, many of whom choose to outsource the administration of their lending books to experienced servicers such as Pepper, has bolstered AUM growth in this region.

Commenting on this trend, Pepper Group's Co Group Chief Executive Officer, Mike Culhane said:

"Pepper's servicing technology and collections approach is attractive to these challenger banks. As well as servicing for banks and a variety of institutional investors Pepper has contracts with a number of lenders who are originating new loans every day. We continue to see AUM growth in servicing, coming from new entrants into the UK Market."

In addition, the prospect of European banks selling and outsourcing loan portfolios continues to grow in Ireland and across Southern Europe in particular, signalling further activity is on the horizon.”

Pepper’s lending activities in Europe are in the early stages of growth, having commenced residential mortgage lending in the UK in 2015. In Ireland, where lending commenced in early 2016, Pepper is the new first mortgage lender to enter the Irish market since 2008. The level of originations in both countries, in particular the UK, has been encouraging.

Speaking on the UK, Mike Culhane, Pepper’s Co-Group CEO said:

“We now have strong penetration in all 3 wholesale distribution channels in the UK and are starting to provide more tailored products to those channels.

In line with our strategy of entering markets such as Ireland with a “servicing first” approach we have been able to gain significant insights from our servicing book when targeting the areas in which we want to lend.”

In Spain, Pepper also saw increased consumer lending activity throughout 2016.

Future growth prospects

As advised earlier in February, discussions between Pepper and Banco Popular to create a consumer lending joint venture in Spain continue.

In addition to these discussions, Pepper continues to evaluate a number of attractive lending and servicing opportunities across Europe.

Fully franked final dividend declared

The Directors of Pepper Group have declared a 5.4 cents per share fully franked dividend for the 6 months to 31 December 2016, taking its total dividend paid to shareholders for 2016 to 8.4 cents per share.

The record date for the 2H16 dividend will be 7 March 2016 and the payment date is 12 April 2016.

Outlook

Subject to market conditions, Pepper is targeting an Adjusted NPAT of at least \$67.5 million, excluding performance fees, for CY17.

Commenting on the outlook, Mike Culhane said "*As we look forward to 2017 and beyond, we believe the sustainability and quality of our earnings will continue to generate predictable returns for our shareholders.*"

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About Pepper Group Limited

Pepper Group Limited (Pepper) is a specialist residential mortgage and consumer lender and loan servicer, operating in targeted market segments in Australia and internationally, many of which are underserved by traditional bank and other prime lenders. Pepper was established in 2000 and commenced lending as a specialist residential mortgage lender in the Australian market in March 2001.

Pepper offers a broad range of lending products including residential mortgages, auto and equipment finance, point-of-sale finance and personal loans. Pepper also provides loan servicing for its own products as well as for third parties across residential mortgages, consumer unsecured and secured loans and commercial real estate (CRE) backed loans. Pepper has become a specialist lending and loan servicing group through a combination of organic growth and targeted acquisitions across Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, and Hong Kong and China through its 12% equity interest in PrimeCredit.

At 31 December 2016, Pepper had \$52.4 billion of assets under management (AUM).