



# Pepper Group Limited

Full year results as at 31 December 2016  
Investor presentation

24 February 2016

# Pepper's strategy is delivering strong earnings growth

**Record  
originations  
via multiple  
channels and  
geographies**

**Continuing  
investment in  
organic and  
inorganic  
opportunities**

**Well positioned  
across asset  
servicing  
Life cycle**

**Lending growth  
supported by  
diversified  
funding mix**

**Increased earnings are achieved through organic growth and disciplined strategic acquisitions**

# Pepper's 2016 financial result up 26% YOY beating guidance

CY16 Adjusted NPAT	<b>\$61.0m</b>	+ 26%
CY16 Statutory NPAT	<b>\$61.6m</b>	Large
CY16 AUM	<b>\$52.4bn</b>	+ 15%
2H16 fully franked dividend	<b>5.4cps</b>	-

Dividend record date: 7 March, Payment date: 12 April















## Financial performance

	CY15 Actual	CY16 Actual	PCP% change
<b>Total income \$'m</b>	304.3	413.2	↑ 36%
<b>Adjusted NPAT \$'m</b>	48.6	61.0	↑ 26%
<b>AUM \$'bn</b>	45.5	52.4	↑ 15%
<b>Servicing AUM \$'bn</b>	39.9	45.4	↑ 14%
<b>Lending AUM \$'bn</b>	5.6	7.0	↑ 25%
<b>Loan originations</b>	\$3,255.8m	\$4,928.5m	↑ 51%
<b>FTE headcount</b>	1,485	1,846	↑ 24%

# Pepper today

A diversified lender and specialist loan servicer in global markets underserved by banks



Operations	Pepper's regions			Pepper's products	AUM <sup>1</sup>
	ANZ	Asia	Europe		
Mortgage lending			 	<ul style="list-style-type: none"> <li>– Non-conforming, near prime and prime residential lending</li> <li>– Some legacy acquired prime portfolios</li> </ul>	5.0bn
Consumer lending		 		<ul style="list-style-type: none"> <li>– Personal loans, point of sale lending, auto loans, equipment finance and credit cards</li> </ul>	2.0bn
Third party servicing			 	<ul style="list-style-type: none"> <li>– Residential mortgages, commercial mortgages and consumer finance receivables</li> </ul>	45.4bn
Advisory				<ul style="list-style-type: none"> <li>– Commercial property advisory</li> <li>– Portfolio due diligence services</li> </ul>	NA

1. As at 31 December 2016

2. Excludes PrimeCredit in which Pepper holds a 12% non controlling interest

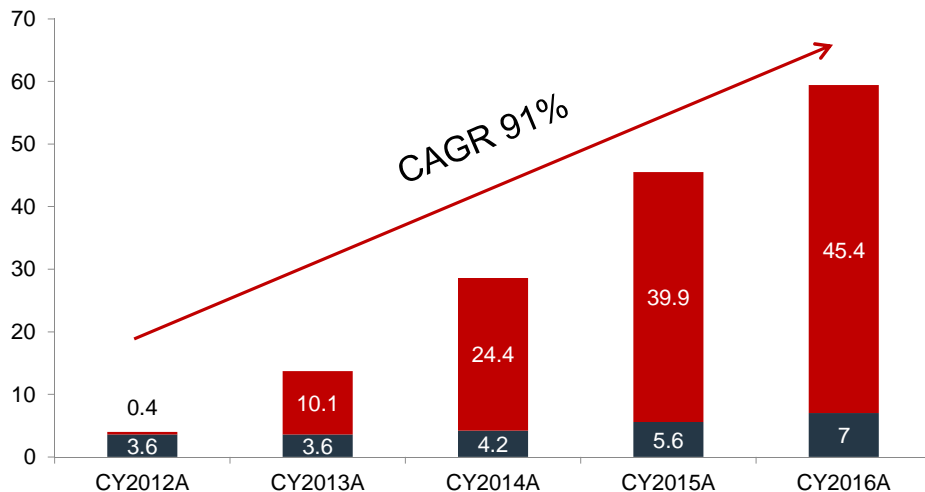
## Growth in South Korea sees the introduction of a new reporting segment

	Australia & NZ		Europe		Asia		Corporate*		Total	
\$'m	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16
<b>Total income</b>	132.3	185.5	145.0	151.2	27.0	76.2	-	0.3	304.3	413.2
Share of profit from associates	-	-	-	-	5.9	9.0	-	-	5.9	9.0
Profit before tax	49.2	59.8	28.2	20.5	(0.6)	30.4	(22.9)	(31.4)	53.9	79.3
<b>AUM</b>	<b>5,765.3</b>	<b>7,065.5</b>	<b>39,072.9</b>	<b>44,146.8</b>	<b>700.0</b>	<b>1,176.5</b>	-	-	<b>45,538.2</b>	<b>52,388.8</b>
Servicing AUM	1,004.1	1,641.0	38,921.9	43,712.7	-	-	-	-	39,926.0	45,353.7
Lending AUM	4761.2	5,424.5	151.0	434.1	700.0	1,176.5	-	-	5,612.2	7,035.1
<b>Loan Originations</b>	<b>2,260.7</b>	<b>3,205.5</b>	<b>156.0</b>	<b>439.9</b>	<b>839.2</b>	<b>1,283.1</b>	-	-	<b>3,255.9</b>	<b>4,928.5</b>

\* Corporate segment result includes interest paid on corporate debt

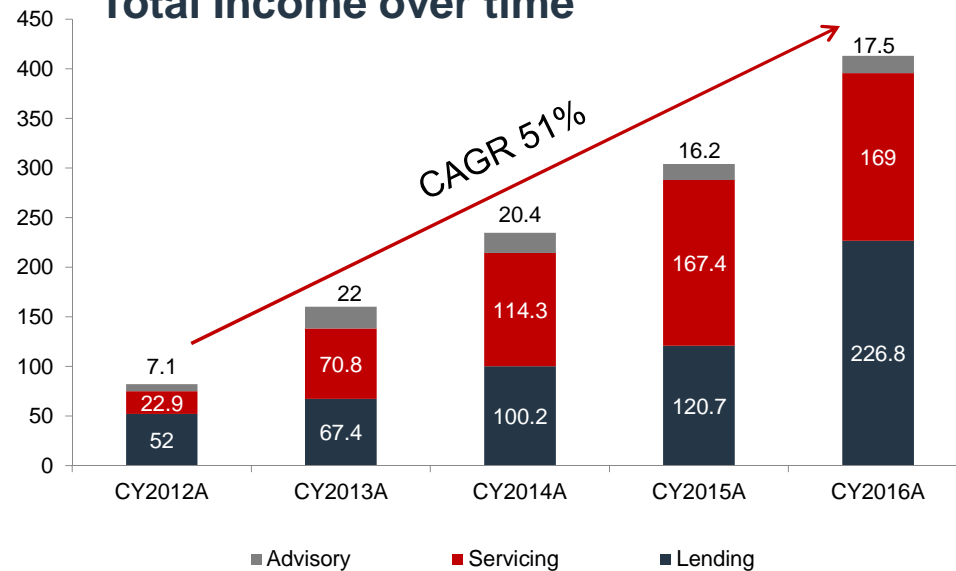
# Pepper's strong growth history continued in 2016

## Total AUM over time



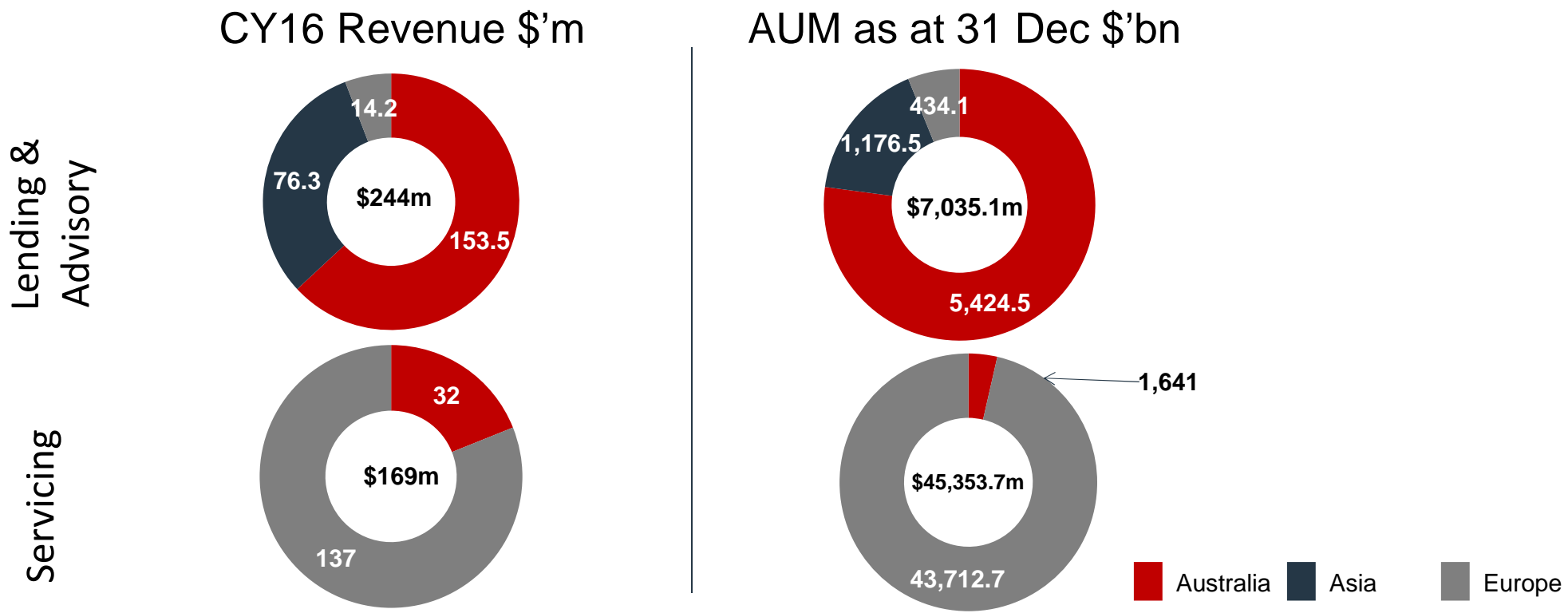
AUM up 15% PCP

## Total Income over time



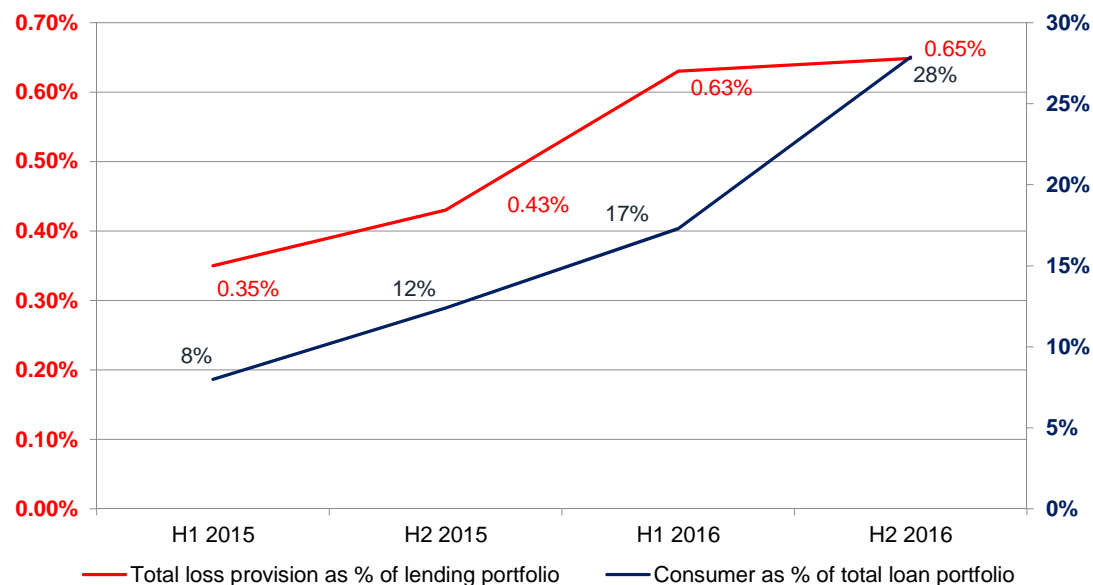
Lending a strong contributor to 2016 result

# Key drivers of Pepper's strong financial result



# Lending volumes and asset mix contributing to expected growth in loan loss provisions

## Loan loss provisions as a % of Lending AUM



- Changing asset mix over 12 months as increasing proportion of consumer lending relative to total Lending AUM
- Strong lending volumes in Australia and growing offshore
- Provisioning levels are in line with management expectations and historical product level loss vintage curves
- Credit policy discipline and pricing for risk methodologies are core competencies



# Macro economic drivers facilitate scale opportunities in the countries where we operate

	Australia	Ireland	UK	Spain	Sth Korea	China / HK
	Residential mortgages Auto & equipment finance Asset Servicing Advisory	Residential mortgages 3 <sup>rd</sup> Party Asset Servicing	Residential Mortgages 3 <sup>rd</sup> Party Asset Servicing	Point of Sale Finance Personal Loans 3 <sup>rd</sup> Party Asset Servicing	Residential mortgages Personal Loans Auto Finance	Consumer finance Personal Loans
Annual GDP growth	2.4%	4.3%	2.2%	3.2%	2.3%	6.8%
Central Bank rate	1.5%	0.25%	0.25%	0%	1.25%	4.35%
Inflation rate	1.5%	0.3%	1.8%	3%	2%	2.5%
Unemployment rate	5.7%	6.8%	4.8%	18.6% (7 year low)	3.6%	4.0%
Population	24 million	4.7 million	65 million	46 million	50 million	1.3 billion

\* Source: TradingEconomics.com

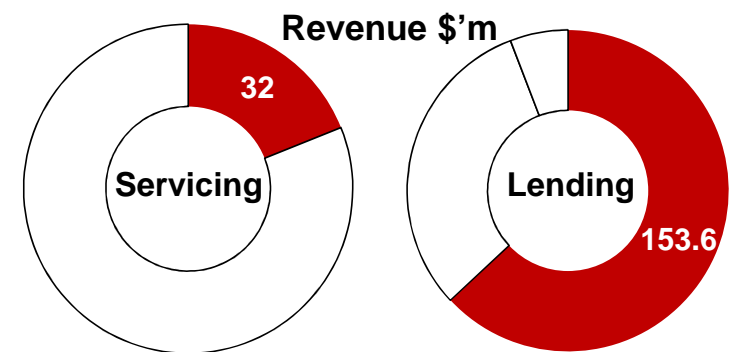
# Australia & NZ – Annual highlights

## Operational Highlights

- Record origination growth in mortgages and asset finance
  - Total mortgages originations of \$2.5bn up 36% on CY15
  - Asset finance originations of \$673m up 69% YOY
- Successful completion of 2 non-conforming RMBS transactions totalling \$1.5bn in addition to \$1.0 billion in whole loan sales
- Continued to successfully manage net interest margin via proactive interest rate pricing strategy.

## Strategic Initiatives

- Lending growth benefiting from continued investment in brand positioning to boost awareness (eg launch of Pepper Money)
- Soft launch of Personal Loans – a wholly online product
- Continued focus on diversified distribution via brokers, direct channel and white label partners including B2C digital marketplace platforms



<b>AUM</b>	<b>7,065.5</b>
Servicing AUM	1,641.0
Lending AUM	5,424.5
<b>Loan originations</b>	<b>3,205.5</b>

# Distribution is driving above-system origination growth in Australia

**2017 (forecast)**

3,100 brokers

**2016**

2,630 brokers

**2015**

2,100 brokers

**2014**

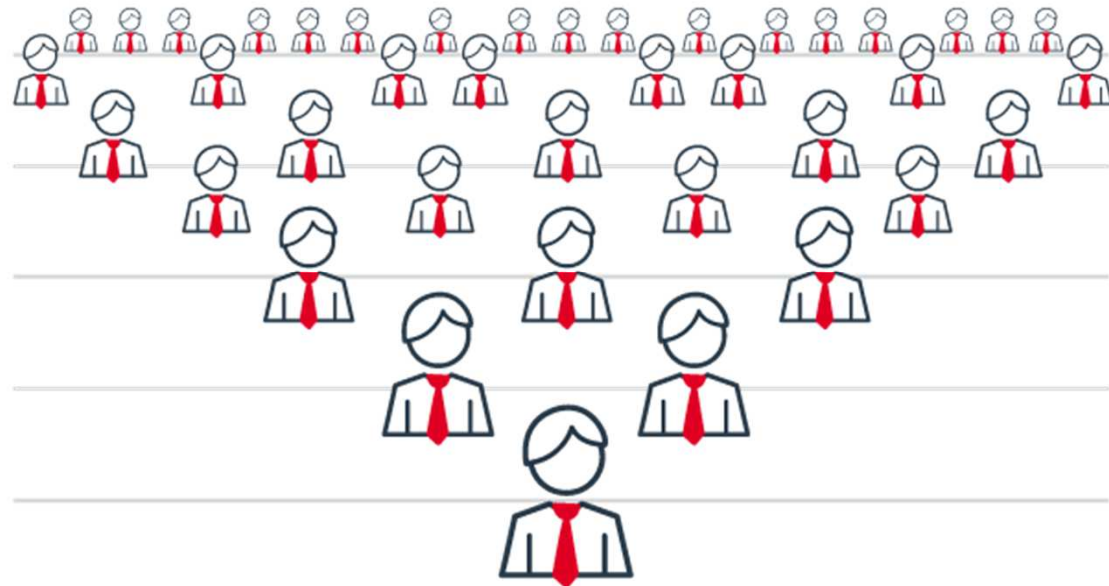
1,200 brokers

**2013**

900 brokers

**2012**

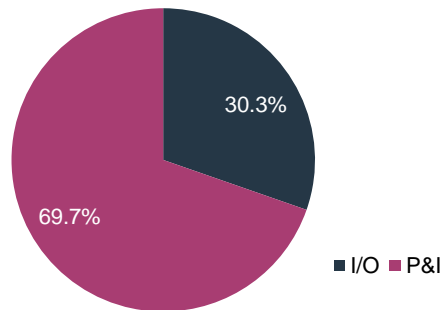
600 brokers



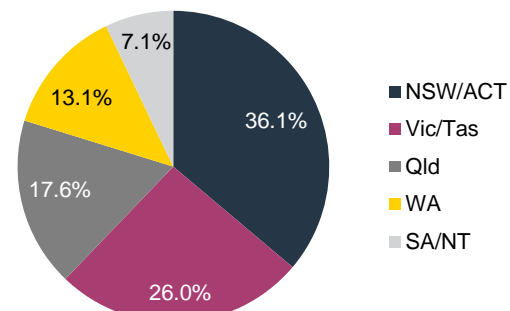
Source: Pepper Group

# Composition of Pepper's Australian residential loan portfolio

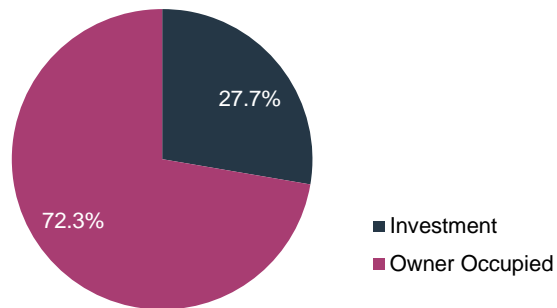
Payment Type



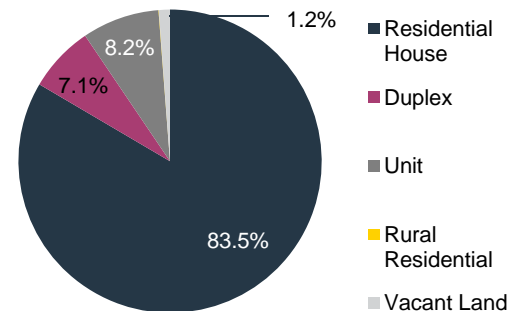
Geography



Payment Type

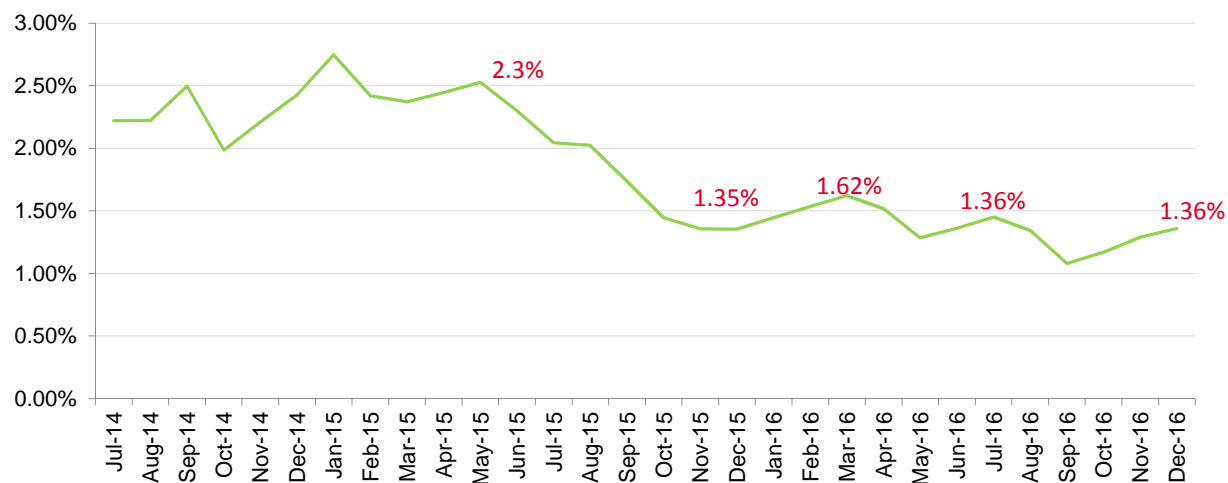


Dwelling Type



# Australia and New Zealand mortgage arrears

## 90+ Delinquency Rate – Pepper originated prime and non-conforming mortgages



Annualised losses constant at 0.10%

## Pepper's residential loan portfolio

	Weighted Avg Current LVR
Pepper originated	71.10%
Pepper acquired	64.77%

## Pepper's credit exposure discipline

- Ceased lending in large mining areas more than 2 years ago (eg Hunter Valley, WA, FNQ)
- 90.6% portfolio comprises residential houses and townhouses
- No high rise CBD apartment lending
- Continual monitoring of housing market valuations by post code through RP Data Core Logic

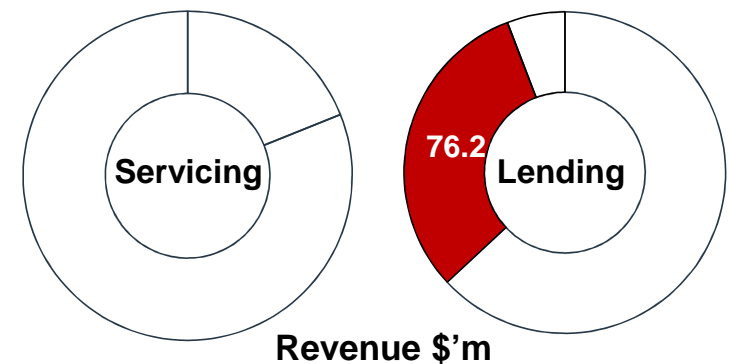
# Asia – Annual highlights

## Operational Highlights

- Record loan origination volumes in South Korea of \$1.28bn up 53% on prior year
- At year end South Korea had approximately 100,000 customers across lending and deposits
- Increase in BIS ratio from 7.1% to 9.5%
- Hong Kong ahead of budget despite challenging economic conditions

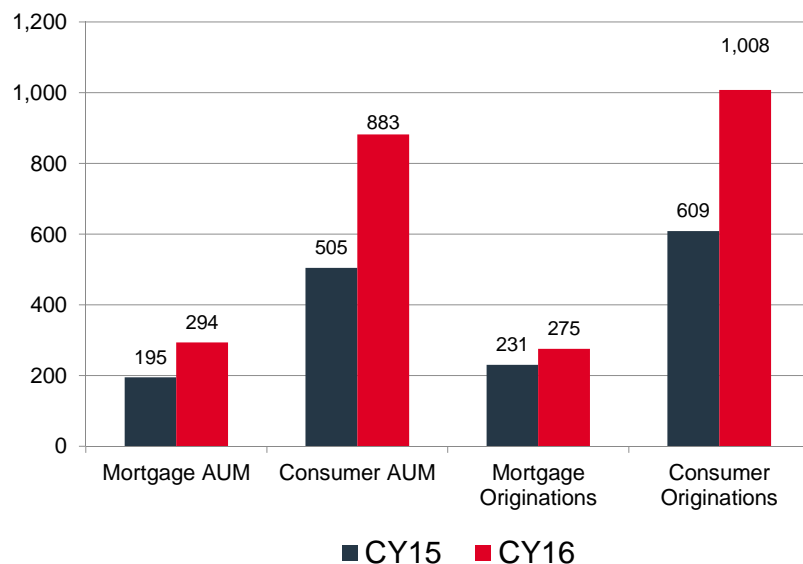
## Strategic Initiatives

- Continued focus on South Korean secured auto lending via wholesale car supermarts
- Build out mobile digital capability to support direct consumer loan origination in South Korea
- Hong Kong successfully rolled out WeWa credit card targeting millennials
- China business granted online license in Chongqing (only 28 licenses granted)



<b>AUM</b>	<b>1,176.5</b>
Lending AUM	1,176.5
<b>Loan originations</b>	<b>1,283.1</b>

# Growing lending originations in South Korea contributing to CY16 profit outcome



Headcount	CY15	CY16
FTE	188	254
DSRs (commission only)	407	423

- Since 2013 we have built a robust distribution network with commission-only sales officers in 5 regional sales centres to drive growth
- Product range expansion is winning awards via the introduction of Pepper’s pricing for risk strategy

# South Korea – our growth strategy at work

	At acquisition	Now
AUM	₩102bn	₩1.3 trillion
Portfolio	Consumer lending	Personal Loans Residential Mortgages Auto Loans
Market ranking based on loan balance	56 <sup>th</sup> /79 mutual savings banks	11 <sup>th</sup> /79 Mutual savings banks
BIS Capital Ratio	6%	9.5%
Funding	100% Deposit	100% Deposit

\* Source: APRA 31 December 2016

## How we transformed this business

- Acquired an existing mutual savings bank, taking it back to its core purpose
- Appointed a strong local management team
- Pepper Savings Bank is now almost equivalent in size on a gross assets basis to QT Mutual bank in Australia\*



# Europe – annual highlights

## Operational Highlights

### Lending

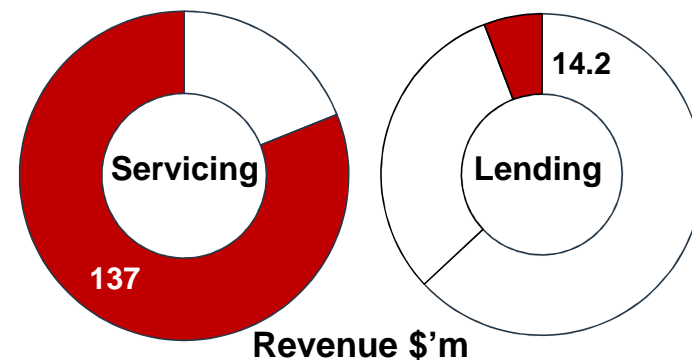
- UK exceeded its lending targets
- In Ireland we are the first new lender to enter the market since 2008
- Point of sale lending in Spain performing well

### Servicing

- In the UK, installed AUM base is growing through originations flowing from challenger bank contracts
- Ireland continues to see servicing opportunities from banks outsourcing and funds buying portfolios

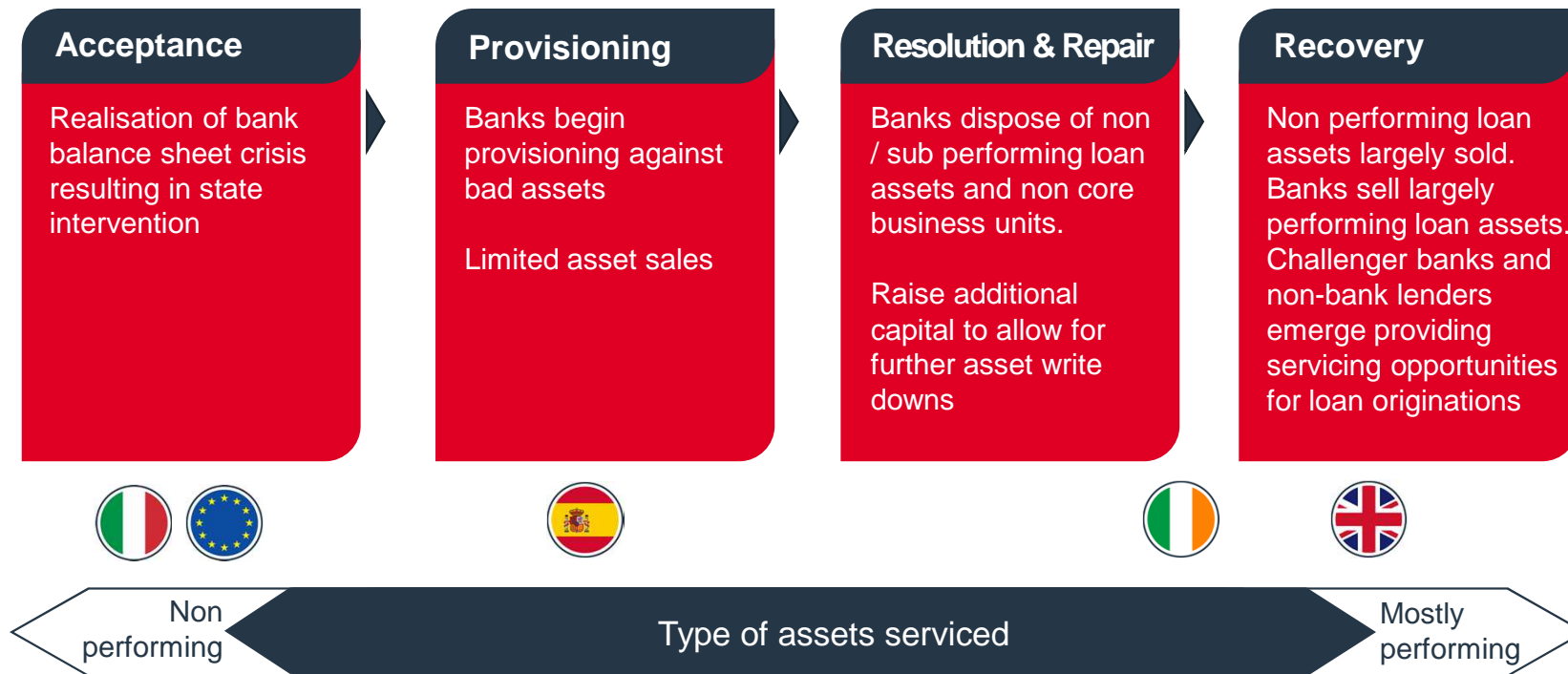
## Strategic Initiatives

- Spanish JV discussions continuing
- Exploring CRE options to use across Europe
- Opportunity to utilise existing infrastructure in Pan European expansion
- Continuing to evaluate a number of attractive opportunities across Southern Europe
- Niche European banks
- Servicing operations in Central Europe, including Italy



<b>AUM</b>	<b>44,146.8</b>
Servicing AUM	43,712.7
Lending AUM	434.1
<b>Loan originations</b>	<b>439.9</b>

# How the credit cycle influences asset servicing





# Financials

Cameron Small, CFO

# Strong growth in Income and NPAT

Evidence of strong organic growth in core businesses and recent new lending initiatives

\$ millions	Pro-forma	
	CY2015 Actual	CY2016 Actual
<b>Income</b>		
Lending income	105.9	191.7
Loan origination fees	14.8	35.1
Servicing and loan administration fees	167.4	169.0
Advisory and other income	16.2	17.5
<b>Total income</b>	<b>304.3</b>	<b>413.2</b>
<b>Share of profit from associate</b>	<b>5.9</b>	<b>9.0</b>
Total expenses	(256.3)	(343.0)
<b>Profit before tax</b>	<b>53.9</b>	<b>79.3</b>
Income tax expense	(11.8)	(17.7)
<b>NPAT</b>	<b>42.1</b>	<b>61.6</b>
Non-controlling equity interests	-	-
<b>NPAT attributable to owners of the Company</b>	<b>42.1</b>	<b>61.6</b>
Acquisition Amortisation	6.5	(0.6)
<b>Adjusted NPAT</b>	<b>48.6</b>	<b>61.0</b>

# Income and PBT – ANZ

Strong organic lending growth and continued investment in product development

\$ millions	Pro-forma	
	CY2015 Actual	CY2016 Actual
<b>Australia and New Zealand Division</b>		
Lending income	72.1	111.5
Loan origination fees	13.6	27.0
Servicing and loan administration fees	32.8	32.0
Advisory and other income	13.9	15.1
<b>Total income</b>	<b>132.3</b>	<b>185.5</b>
Commission and direct marketing expenses	(16.5)	(35.5)
Employee compensation and benefits expenses	(48.9)	(56.7)
Occupancy expenses	(3.6)	(5.1)
Professional expenses	(2.2)	(4.9)
Depreciation and amortisation expenses	(2.7)	(3.8)
General and administration expenses	(9.2)	(19.7)
<b>Profit before tax (Australia and New Zealand Division)</b>	<b>49.2</b>	<b>59.8</b>
<b>AUM</b>		
Servicing AUM	1,004.1	1,641.0
Lending AUM	4,761.2	5,424.5
<b>Loan originations</b>	<b>2,260.7</b>	<b>3,205.5</b>

- Record originations up \$945m or 42%, driving increases in Lending income and Loan origination fees
- Servicing and admin fee increase of 25%, masked by \$7m performance fee in CY15.
- Commission expenses increase primarily driven by increasing PAF originations
- G&A increase attributable to Pepper Money brand investment and a move to software as a service licensing fees

# Income and PBT - Asia

Material contribution to group profit from Asia. Disclosure of segment for first time.

\$ millions	Pro forma CY2015 Actual	CY2016 Actual
<b>Asia Division</b>		
Lending income	27.0	76.2
Loan origination fees	-	-
Servicing and loan administration fees	-	-
Advisory and other income	-	-
<b>Total income</b>	<b>27.0</b>	<b>76.2</b>
<b>Share of profit from associate</b>	<b>5.9</b>	<b>9.0</b>
Commission and direct marketing expenses	(7.2)	(19.7)
Employee compensation and benefits expenses	(16.0)	(23.4)
Occupancy expenses	(2.3)	(2.5)
Professional expenses	(1.2)	(2.2)
Depreciation and amortisation expenses	(1.8)	(2.0)
General and administration expenses	(5.0)	(5.0)
<b>Profit before tax (Asia Division)</b>	<b>(0.6)</b>	<b>30.4</b>
<b>AUM</b>		
Servicing AUM	-	-
Lending AUM	700.0	1,176.5
<b>Loan originations</b>	<b>839.2</b>	<b>1,283.1</b>

- Lending income up 182% over 12 months, combination of increased Origination volume and higher margin consumer lending mix
- 20% increase in underlying share of profits derived from Prime Credit, adjusting for \$2m amortising intangible from 1H16 disclosure
- Growth in commission expenses (Direct Sales Reps) commensurate with increases in originations
- Growth in employee compensation and benefits in line with growth in originations

# Income and PBT - Europe

Continuing to invest in growth initiatives across Europe

\$ millions	Pro forma CY2015 Actual	CY2016 Actual
<b>Europe Division</b>		
Lending income	6.9	3.7
Loan origination fees	1.1	8.1
Servicing and loan administration fees	134.7	137.0
Advisory and other income	2.3	2.4
<b>Total income</b>	<b>145.0</b>	<b>151.2</b>
<b>Share of profit from associate</b>		
	-	-
Commission and direct marketing expenses	(0.4)	(0.7)
Employee compensation and benefits expenses	(77.0)	(93.6)
Occupancy expenses	(6.9)	(7.1)
Professional expenses	(7.1)	(7.2)
Depreciation and amortisation expenses	(9.1)	(3.5)
General and administration expenses	(16.4)	(18.6)
<b>Profit before tax (Europe Division)</b>	<b>28.2</b>	<b>20.5</b>
<b>AUM</b>		
	<b>39,072.9</b>	<b>44,146.8</b>
Servicing AUM	38,921.9	43,712.7
Lending AUM	151.0	434.1
<b>Loan originations</b>	<b>156.0</b>	<b>439.9</b>

- Underlying growth in lending income once gains on sale of ~\$4m in Ireland and Spain is excluded
- Lending now occurring in all our European markets at increasing run rates, although optimal scale is yet to be achieved in UK and Ireland
- Annualisation of compensation expenses and growth in headcount attributed to Lloyds Banking Group servicing contract onboarded in 1H16 and 20 contract wins in CY15
- Performance fees earned in CY15 masking strong growth in CY16 servicing income

# Statutory and pro forma balance sheet as at 31 Dec 2016

Million	Statutory (including limited- recourse funding vehicles)	Impact of excluding limited -recourse Funding Vehicles	Pro-Forma (Excluding limited- recourse Funding Vehicles)
<b>Assets</b>			
Cash and cash equivalents	782.1	(422.0)	360.1
Securities	80.7	-	80.7
Derivative financial assets	35.5	(35.5)	-
Receivables	77.7	51.0	128.7
Other assets	28.1	(0.1)	28.0
Loans and advances	7,072.8	(5,841.6)	1,231.2
Deferred tax assets	15.4	(1.5)	13.9
Investments	135.5	176.7	312.3
Property, plant and equipment	22.0	-	22.0
Goodwill	22.2	-	22.2
Intangible assets	40.5	-	40.5
<b>Total assets</b>	<b>8,312.4</b>	<b>(6,072.9)</b>	<b>2,239.6</b>
<b>Liabilities</b>			
Deposits	1,383.1	-	1,383.1
Derivative financial liabilities	2.6	(2.6)	-
Trade and other payables	31.7	(2.1)	29.5
Current tax liabilities	5.5	-	5.5
Borrowings	6,252.8	(6,111.1)	141.7
Other liabilities	148.2	39.5	187.7
Provisions	34.8	-	34.8
Deferred tax liabilities	-	-	-
<b>Total liabilities</b>	<b>7,858.7</b>	<b>(6,076.3)</b>	<b>1,782.3</b>
<b>Net assets</b>	<b>453.8</b>	<b>3.5</b>	<b>457.2</b>
<b>Equity</b>			
Issued Capital	298.1	-	298.1
Other Reserves	(15.9)	3.4	(12.5)
Retained earnings	172.0	-	172.1
<b>Total equity excl. non-controlling interests</b>	<b>454.2</b>	<b>3.4</b>	<b>457.7</b>
Non-controlling interests	(0.4)	-	(0.4)
<b>Total equity</b>	<b>453.8</b>	<b>3.4</b>	<b>457.2</b>

- 1 Statutory includes cash held at corporate level, as well as cash held in non-recourse Funding Vehicles as collateral for warehouse funders.
- Statutory and pro forma cash also includes:
- \$214.4m of restricted cash held in Pepper Savings Bank which is unable to be transferred from South Korea
  - \$104.4m held on trust as part of Pepper's day-to-day clearing and origination operations.



# Balance sheet strength

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Free cash on  
balance sheet

**\$41m**

**Available surplus cash**

Net assets as at  
31 Dec 2016

**\$457.2m**

**Sound net asset position**



# Outlook

Mike Culhane – Co Group CEO

# Strategic goals for CY2017

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Support lending growth globally

Foster ongoing lending growth in all our markets  
Build on installed revenue base in third party servicing

Seek new operating markets offshore

Several earnings accretive lending and servicing opportunities being evaluated

Expense management

Seek to leverage operating efficiencies across our markets

Optimise use of capital

Deploy capital to support lending growth objectives

# CY2017 outlook

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- Pepper Group's outlook is underpinned by the quality and sustainability of its core earnings.
- 2017 will see continued investment in emerging lending businesses in Australia and Europe and growth in our annuity based income streams
- Subject to market conditions, and exclusive of performance fees, Pepper is **targeting an Adjusted NPAT of at least \$67.5m** for CY17.

# Annexures

# Statutory and adjusted NPAT reconciliation

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Pro forma financial statements

This presentation predominantly deals with pro forma financial information



Statutory financial statements

See page 24



Deconsolidation of Funding Vehicles  
Adjustment for timing of certain acquisitions

Better reflects the commercial realities of Pepper's business

- Pepper's ability to commercially influence trusts is limited
- Borrowings on Funding Vehicles are limited recourse to Pepper
- Pepper's income from Funding Vehicles is net of costs

# Statutory income statement

\$ millions	Statutory	
	CY2015 Actual	CY2016 Actual
<b>Revenue</b>	<b>527.2</b>	<b>684.6</b>
Share of profit from associate	3.1	9.0
Employee compensation and benefits expenses	(196.0)	(194.8)
Depreciation and amortisation expenses	(14.1)	(9.4)
Borrowing costs	(209.8)	(250.1)
Other expenses from operations	(100.3)	(160.0)
<b>Profit before tax</b>	<b>10.2</b>	<b>79.3</b>
Tax expense	(6.8)	(17.7)
<b>NPAT</b>	<b>3.4</b>	<b>61.6</b>
Non-controlling equity interests	-	-
<b>NPAT attributable to owners of the Company</b>	<b>3.4</b>	<b>61.6</b>

# Reconciliation of statutory and adjusted NPAT statements

\$ millions	CY15 Actual	CY16 Actual
<b>Total Income</b>		
<b>Statutory revenue</b>	527.2	684.6
<b>Adjustments to de-consolidate the Funding Vehicles</b>		
1 De-consolidation of income recorded by the limited-recourse Funding Vehicles	(330.1)	(415.3)
2 Recognition of coupon interest and distribution income received from the Funding Vehicles	96.2	117.0
Recognition of servicing and administration income received from the Funding Vehicles	25.3	46.6
<b>Subtotal: Adjustments to exclude the limited-recourse Funding Vehicles</b>	<b>(208.6)</b>	<b>(251.7)</b>
<b>Adjusted total income (excluding limited-recourse Funding Vehicles)</b>	<b>318.6</b>	<b>432.9</b>
<b>Other adjustments</b>		
3 Reporting reclassifications	(15.7)	(19.7)
PrimeCredit full year recognition (management fee)	1.5	-
<b>Pro forma total income</b>	<b>304.3</b>	<b>413.2</b>
<b>NPAT</b>		
<b>Statutory NPAT</b>	<b>3.4</b>	<b>61.6</b>
Net finance costs	3.3	-
Business acquisition transaction costs	2.8	-
New executive management LTI Scheme structure	(0.8)	-
Management LTI Scheme structure acceleration	33.6	-
Listed public company costs	(0.4)	-
PrimeCredit full year recognition (management fee)	1.5	-
PrimeCredit full year recognition (equity investment)	2.8	-
Offer transaction costs	1.0	-
Income tax effect of adjustments and effective rate	(5.1)	-
<b>Pro forma NPAT</b>	<b>42.1</b>	<b>61.6</b>

1 Recognition on a pro forma basis of income received from first-loss capital and residual income units held by Pepper in limited recourse Funding Vehicles.  
On a statutory basis income recognised by Funding Vehicle is recognised within the consolidated group.

2 Represents the recognition on a pro forma basis of income received by Pepper as contracted service and management provider to the limited recourse Funding Vehicles.  
On a statutory basis, the consolidation process eliminates these transactions between Pepper and the limited-recourse vehicles.

3 The net adjustment for certain items presented differently for statutory and pro forma disclosure purposes between Income and expenses eg:

- Deposit interest and loan losses
- Broker commissions



# Pro Forma and Statutory consolidated cash flows

Cash flows from operating activities remain consistent with expectations

\$ millions	Statutory CY16	Recourse CY16 Actual <sup>1</sup>
<b>Operating activities</b>		
Fee revenue receipts from customers	252.1	397.8
Payment to Suppliers and employees	(354.8)	(376.4)
Interest received	525.7	157.1
Interest and other finance costs paid	(259.3)	(42.5)
Income taxes paid	(13.1)	(13.1)
<b>Net operating cash flow</b>	<b>150.6</b>	<b>122.9</b>
<b>Net Investing activities</b>	<b>(1,585.7)</b>	<b>(709.1)</b>
<b>Net Financing activities</b>	<b>1,669.8</b>	<b>726.0</b>
Effects of exchange rates	(8.3)	(5.6)
<b>Net increase/(decrease) in cash</b>	<b>226.3</b>	<b>134.2</b>
Balance at beginning of year	555.8	225.9
<b>Balance at end of year</b>	<b>782.1</b>	<b>360.1</b>

1. Pro Forma - Statutory excluding limited recourse funding vehicles

# Pro Forma and Statutory consolidated cash flows

\$ millions	Statutory CY16	Recourse CY16 Actual
<b>Reconciliation of operating activities</b>		
Profit after tax	61.6	61.6
<b>Non cash expenses / (revenue)</b>		
Share of profit from associate	(9.0)	(9.0)
Taxation	17.7	17.7
Depreciation and amortisation	9.3	9.3
Securitisation deal cost amortisation	9.4	5.8
Upfront broker fee amortisation	44.8	44.8
Unearned Income amortisation	(17.7)	(17.7)
1 Loan write-offs	64.2	39.2
Management incentive expense	2.8	2.8
Employee related provisions	11.0	11.0
Accrued interest on deposits (Korea)	8.4	8.4
Exchange differences	0.7	0.7
<b>Cash (expenses) / revenue</b>		
Tax paid	(13.1)	(13.1)
Upfront broker fee paid	(82.5)	(82.5)
Unearned Income received	19.9	19.9
Broker assumption costs	(1.5)	(1.5)
<b>Movement in working capital / balance sheet items</b>		
	(3.7)	(2.6)
<b>Net operating cash flow (excl cash held on trust)</b>	<b>122.4</b>	<b>94.8</b>
2 Cash clearing balances	28.2	28.2
<b>Net operating cash flow</b>	<b>150.6</b>	<b>122.9</b>

1

- Statutory Loan losses include limited recourse funding vehicles and South Korea. Whereas Recourse excludes limited recourse funding vehicles.

2

- Cash held on Trust for third parties under servicing contract arrangements. Generally settled in month after receipt.

# Statutory consolidated cash flows

\$ millions	Statutory CY16	Recourse CY16 Actual
<b>Investing activities</b>		
Property, plant and equipment	(3.4)	(3.4)
Payments for intangibles	(14.4)	(14.4)
Net (Investment in) / disposal of Investments	(3.8)	(3.8)
Amounts (Advanced to) / received from related parties	1.7	1.7
Arrangement fees	(10.2)	(10.2)
1 (Payment) / repayment of notes	7.8	(61.1)
(Payment) / repayment for securities	(80.2)	(80.2)
2 Net loan advances and collections	(2,819.8)	(798.8)
Net cash inflow from disposal of subsidiaries	0.3	0.3
Investment in / received from associate	4.4	4.4
3 Sale of loan portfolios	1,331.9	256.3
<b>Net cash from investing activities</b>	<b>(1,585.7)</b>	<b>(709.1)</b>
<b>Financing activities</b>		
4 Proceeds from / (Repayment) of Borrowings	1,047.8	104.0
5 Net increase in deposits	632.8	632.8
Dividend (paid)	(10.8)	(10.8)
<b>Net cash from financing activities</b>	<b>1,669.8</b>	<b>726.0</b>

1

- Investments held in limited recourse funding vehicles. Recourse balance includes investments in funding vehicles consolidated by the Pepper statutory Group.

2

- Statutory includes limited recourse funding vehicles and South Korea. Whereas Recourse excludes limited recourse funding vehicles.

3

- Whole loan sales recorded in Australia and South Korea

4

- Statutory includes draw downs to support loan growth in limited recourse vehicles whereas recourse excludes limited recourse funding vehicles.

5

- Relates exclusively to Pepper South Korea

# Glossary

Term	Inclusions
Income	
Lending income	Includes: <ul style="list-style-type: none"> <li>• Net income distributed from Pepper's Funding Vehicles as residual income and equity note coupons (distributed net of interest expenses and other Funding Vehicle costs)</li> <li>• Interest on loan notes in third party trusts</li> <li>• Net interest income on loans in South Korea</li> </ul>
Loan origination fees	Includes: <ul style="list-style-type: none"> <li>• Application fee</li> <li>• Mortgage risk fees</li> </ul>
Servicing and loan administration fees	Includes: <ul style="list-style-type: none"> <li>• Servicing and trust management fees on Pepper-originated or acquired Funding Vehicles</li> <li>• Servicing fees received from third party trusts</li> <li>• Performance fees, which accrue where trusts meet discrete performance benchmarks</li> </ul>
Advisory and other income	Includes: <ul style="list-style-type: none"> <li>• Advisory Income from Pepper Property Group</li> <li>• Advisory Income from due diligence services in Ireland</li> <li>• Management services fees from PrimeCredit</li> </ul>
Statutory and Pro forma Balance Sheet	
Cash and cash equivalents	Statutory includes cash held at corporate level, as well as cash held in non-recourse Funding Vehicles as collateral for warehouse funders. Statutory and pro forma cash also includes: <ul style="list-style-type: none"> <li>• \$128.8m of restricted cash held in Pepper Savings Bank which is unable to be transferred from South Korea</li> <li>• \$106.4m held on trust as part of Pepper's day-to-day clearing and origination operations.</li> </ul>
Deferred tax assets	Primarily relates to: <ul style="list-style-type: none"> <li>• Customer loan receivables and lease receivables held at the limited-recourse Funding Vehicle level</li> <li>• Loans and advances from Pepper Savings Bank, which are held on balance sheet (net of provisions for doubtful debts)</li> </ul>
Property, Plant and Equipment	On a statutory basis primarily relates to: <ul style="list-style-type: none"> <li>• Capitalised deal costs</li> <li>• Investments in third party Funding Vehicles held in Pepper Ireland</li> <li>• Investment property held in Pepper Savings bank</li> </ul> On a pro forma basis this item additionally recognises the investments in Pepper owned trusts

# Glossary

Term	Inclusions
Other liabilities	Primarily relates to: <ul style="list-style-type: none"> <li>● Drawn debt financing facilities including notes and warehouse facility funding at the limited recourse Funding Vehicles</li> <li>● Accrued interest payable to funding providers at the limited-recourse Funding Vehicle level</li> <li>● Corporate debt</li> </ul> Pro forma presentation removes borrowings held at limited-recourse Funding Vehicle level
Statutory Income Statement	
Revenue	Statutory revenue comprises the aggregate income of the consolidated Pepper group under the statutory presentation and includes: <ul style="list-style-type: none"> <li>● Gross interest income on loans</li> <li>● Servicing fees from third parties</li> <li>● Other income from third parties</li> </ul> Statutory income is not shown net of funding costs
Borrowing costs	Statutory borrowing costs consist of: <ul style="list-style-type: none"> <li>● Interest paid on corporate debt borrowed and guaranteed by Pepper</li> <li>● Interest paid by Pepper controlled limited-recourse Funding Vehicles to third party note holders and lenders</li> <li>● Excludes interest expense paid to Pepper on Funding Vehicle equity notes and units held in the PIM funds</li> </ul>

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