23 May 2017

Group CEO's Address to AGM

Good morning everyone

In 2016, Pepper delivered a statutory profit of $61.6 million and $61.0m on an Adjusted Net Profit After Tax basis. This represents an impressive 26% increase on our CY2015 result and is reflective of the diversity and sustainability of Pepper Group's earnings, across both business lines and geographies. It was pleasing to see that our consumer and residential mortgage lending businesses, as well as our pan-European loan servicing platform both contributed strongly to this outcome.

Total Group Assets Under Management at 31 December 2016 were A$52.4 billion, 25% higher than last year.

Total loan originations across the group were A$4.93 billion, up 51% on the prior year – largely reflecting the continuing significant lending growth experienced in our Australian mortgage lending and auto finance businesses. However this year, our South Korean business also experienced record origination volumes in consumer lending.

Our asset servicing business, predominantly located in Europe, experienced growth of almost 10% in twelve months, reaching $45.4 billion by year's end.

To more accurately report where Pepper's underlying earnings are being generated and to allow investors to better understand the drivers of group earnings, we changed our financial reporting in 2016. While the Australian segment remained unchanged, we chose to split the international segment in two, namely Asia and Europe. Asia incorporates our South Korean, Hong Kong and China business units and Europe includes Ireland, the UK and Spain.

The profitability of our businesses in Australia and Asia is largely due to the growth in residential mortgage and consumer lending in those regions. While in Europe our earnings are linked to the significant scale of our third-party loan servicing portfolio across Ireland, the UK and Spain.

This trend will most likely persist over the short-to-medium term, albeit the relative proportion of our Lending income in Europe will progressively increase as we build scale, particularly in the UK residential mortgage and Spanish consumer lending markets in the years ahead.

Australia

In Australia, Mortgage originations grew 36% reaching $2.5 billion by year end.

In residential lending, a focus on education and awareness of our products is behind our above-system growth. Put simply, we are ensuring that brokers can provide real lending alternatives when their customers fall outside of the computer-generated, automatic credit scoring programs of the big banks.

In asset finance, our strategy of positioning Pepper 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.

Throughout 2016, we continued to promote our consumer facing brand, Pepper Money, through our sporting sponsorships and radio advertisements so that customers recognise the brand when a Pepper Money product is recommended to them.

These complementary strategies are facilitating future growth in both our Australian lending and consumer finance markets.

Asia

Turning now to Asia, 2016 has been a transformational year for our South Korean business, Pepper Savings Bank. It experienced a 52% increase in consumer lending volumes in 2016. The $76 million in revenue generated from the lending portfolio led to the creation of a new financial reporting segment for Pepper.

Through the efforts of our 420 dedicated Direct Sales Representatives (DSR's) located across 5 regional sales centres throughout South Korea, we were able to originate $1.2bn in personal loans and residential mortgages.

In expanding the product range, and incorporating the use of Pepper's pricing for risk strategy, we are winning a number of awards in South Korea for our innovative products.

There was also a strong $9m contribution stemming from our 12% investment in Prime Credit, a consumer finance business located in Hong Kong and China. This was up from $5.9m a year ago.

Europe

In Europe, the assets in the lending portfolios we manage on behalf of others increased nearly 10%. In the UK, the installed base is growing courtesy of the contracts we have signed with a number of challenger banks, who are originating new loans on a daily basis. Most challenger banks have made the strategic decision to outsource the administration of their loan portfolios and Pepper is a popular choice for a growing numbers of these banks.

In Ireland, we continue to see opportunities arising from banks and the buyers of loan portfolios who are unable or unwilling to service the underlying loans.

In the coming years, we expect to begin servicing in countries such as Italy where banks are actively reviewing their loan book provisions.

While banks in some European countries are yet to deleverage their balance sheets, an emerging theme in the rest of Europe is a growth in consumer finance and residential lending and Pepper is responding.

For instance, in Ireland, we are the first new residential mortgage lender to enter the market since 2008, and in the UK, we exceeded our internal sales targets in 2016. The trends we witness in the portfolios we manage on behalf of others provide us with the insights and confidence to begin lending in highly-targeted areas in Europe.

To raise awareness of our lending products in the UK and Irish markets, we are emulating the successful consumer branding strategy we have implemented in Australia.

While in 2016, the strong growth that emerged in Asian lending was a key highlight, we expect that in future, the contribution from Europe will come to the fore.

Pepper is constantly seeking new growth opportunities and new markets in which to operate. To that end, in July, we announced a consumer finance joint venture with Spanish bank, Banco Popular. The intention was to combine Pepper Group's market leading point of sale technology and proven personal loan cross sell expertise with Popular's deep merchant relationships, branch and customer networks and highly efficient funding platform in the Spanish market.

While we had been working towards completion of that transaction developments within Banco Popular that were outside of Pepper’s control led to discussions ceasing in April this year.

Despite this development, the prospects for our existing consumer finance business in Spain remains extremely positive and we remain excited about the many lending and servicing opportunities that we are seeing throughout Europe.

Before I comment on the outlook, I would like to acknowledge the significant contribution Patrick Tuttle made to both the 2016 result and indeed to the growth of Pepper since 2001.

On a personal note, I will miss the close working relationship that Patrick and I had as a result of working together for more than 16 years and side-by-side for the past 6 years. When I reflect on how we have taken an Australian non-conforming lending and servicing business and grown it into the global business it is today, I am proud of what we have achieved together.

Outlook

In 2017, we are looking to deploy a strategy of measured growth across each of our jurisdictions. We will continue to grow lending in our core markets and build upon the existing installed base of third party servicing revenues while always ensuring that we are close to the expense lines of these businesses.

Running a global business, means that we must necessarily monitor the economic and political environments of each country in which we operate. Our credit practices and operating disciplines are informed by these operating conditions and ensure that we maintain a balanced approach globally.

It is the deep expertise of our in-country management teams that allows us to identify early the risks, opportunities or necessary changes arising from regulatory change and geopolitical events and act accordingly.

Pepper’s role as managers of your capital is to make sure we build a sustainable and high quality balance sheet which in turn generates strong and consistent returns over an extended period. Since 2012, we have reinvested material amounts to new and developing businesses, to ensure the future growth of Pepper continues unabated.

In 2017, Pepper has started the new financial year positively, with $1.3bn of loans written across our lending businesses in the first quarter of 2017, a 27.5% increase on the same quarter last year. We've also been awarded two servicing contracts – a €400m contract in Ireland and in the UK, we will begin servicing the new originations for online commercial real estate lender, Lend Invest.

Just last month we reported Group AUM as at 31 March 2017. The headline figure was $50.8 billion. Foreign exchange translation into Australian Dollars was the predominant reason for this reduction since year end. As at 31 March, our AUM comprises A$43.1 billion in Servicing portfolios, and A$7.7 billion of Lending assets.

2017 is a year where we are seeking to consolidate recent strong gains in Australia and South Korea while carefully growing originations in Ireland and the UK all the time taking account of the macro backdrop. In Spain, predictable growth is visible and Hong Kong is performing well with the new online license in China giving the opportunity for significant future upside.

With this in mind, I am pleased to reconfirm the guidance we provided to the market in February. Subject to market conditions, we are on track to achieve an Adjusted NPAT of at least $67.5 million, excluding performance fees, for CY17.

2016 was a very strong year for Pepper, both in terms of new lending and profitability. It is a result that every single person in the organisation was a part of and of that, we can be very proud. 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.

Thank you