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Pepper Reports 20% Rise in Profit For First Half

Long term investment in lending platforms supporting future earnings growth

Highlights

- Adjusted Net Profit After Tax (NPAT) of \$28.3 million
- Statutory Net Profit After Tax (NPAT) of \$28.1 million
- Assets Under Management (AUM) of \$53.3 billion
- Total income of \$219.4 million, up 13% (1H16: \$193.9 million)
- Fully franked interim dividend of 3 cents per share (cps) – record date 13 September 2017 and payment date 5 October 2017
- Strong growth experienced in South Korean consumer lending business and in the core Australian mortgage business
- UK servicing AUM supported by banking clients new loan originations
- Continued investment in new lending platforms and business opportunities:
 - Acquisition of Portuguese consumer finance business, Banco Primus
 - Support of growing UK, Spanish and Irish lending businesses

Diversified financial services firm, Pepper Group Limited (Pepper; ASX: PEP), today announced a 20% rise in adjusted net profit after tax of \$28.3 million for the six months to June 30, 2017.

Total income for the first half rose 13% from \$193.9 million for the same period last year to \$219.4 million at 30 June 2017. Profits are again expected to be weighted towards the second half, reflecting the continuing growth in residential and consumer lending books in Australia, South Korea, as well as the UK and Ireland.

Pepper's Group Chief Executive Officer, Mike Culhane, said, "Our results demonstrate the company's commitment to delivering on its growth strategy, with strong contributions from each of our regions across Australia, Asia and Europe.

Loan originations across the group reached \$2.8 billion during the period. The lion's share of that volume came from residential lending in Australia and consumer finance in South Korea, with originations in both markets totalling \$2.48 billion."

3 cent fully franked interim dividend declared

The Directors have declared a 3 cents per share fully franked interim dividend for the first half. The record date for the dividend will be 13 September 2017 and the payment date is 5 October 2017.

Assets Under Management reached \$53.3 billion

Pepper increased its combined lending and servicing assets under management (AUM) to \$53.3 billion at 30 June, 2017.

Lending AUM increased 13% to \$8.0 billion since 31 December 2016, while servicing AUM, affected by foreign exchange translation, remained stable at \$45.3 billion.

Strong organic lending growth in Australia continues

The Australian residential mortgage lending business lifted new originations 17% to \$1.38 billion during the period. These mortgage volumes were largely delivered through a growing awareness of Pepper's distinct consumer offering across its three core distribution channels - mortgage brokers, white label partners and direct to consumer.

Pepper's 90 day+ arrears showed a slight increase from 1.36% in the first quarter to 1.55% at the June 30 balance date.

Subsequently, in July, this figure reduced almost 9% to 1.41%, to be back within management expectations. Pepper's arrears remain low due in part to the group's disciplined credit exposure, as well as low interest rates.

Asset Finance originations reached \$375 million and a change to asset mix saw an improvement in the division's net interest margin.

Strong origination volumes experienced in Asia

Pepper's Asian results were boosted by strong growth in origination volumes experienced at Pepper Savings Bank in South Korea. During the period, the bank deliberately turned its focus towards SME loans rather than increasing its consumer lending book due to local regulatory requirements. Despite this change in focus, a record \$716 million worth of loans were written, 20% up on the corresponding period.

Prime Credit, in whom Pepper holds a 12% stake, benefitted from the underlying growth in the Hong Kong economy this year. The group recently received confirmation of the activation of a national lending license in Chongqing in China, which boosts the company's prospects in that region.

Servicing revenues main contributor to Europe, but lending volumes increasing

The revenue earned from the offshore component of Pepper Group's \$45.3 billion in third party asset servicing made a meaningful contribution to the European financial result.

UK servicing AUM continued to grow through agreements with well-known challenger banks, which outsource the administration of their lending books to Pepper.

Spain has seen signs of early growth on the servicing side and Pepper is confident that increased activity could lead to servicing wins in that market during the second half. In Italy Pepper has established a small servicing platform and has recently applied to the Bank of Italy for an operating license, which will allow us to provide third party servicing in this market in 2018.

Pepper's lending activities in Europe remain in the early stages of growth, with the UK's origination volumes increasing in both the near prime and non-conforming segments.

Ireland continues to ramp up originations in CRE and Residential mortgage lending and Spain is on track to achieve its origination growth target.

Acquisition in Portugal expands global presence

In July, Pepper Group announced the acquisition of consumer finance business, Banco Primus.

Primus is a licensed and regulated Portuguese bank specialising in used car financing and personal loans. Banco Primus' offices in Portugal and Spain have A\$677.7 million in assets as of 31 December 2016. Primus is the 5th largest used auto finance provider in Portugal.

Primus offers Pepper the opportunity to acquire a well-managed consumer credit platform in a familiar asset class. It also provides the Group with a significant strategic benefit, with the ability (subject to further regulatory approvals) to take deposits in Portugal and Spain, allowing further asset growth in both jurisdictions.

The transaction remains subject to a standard change of control approval from the Bank of Portugal and the European Central Bank and is expected to complete during Q1 2018.

Proposed acquisition of Pepper by KKR announced

On 10 August 2017, the Directors of Pepper Group announced the proposed acquisition, by way of Scheme of Arrangement, of Pepper Group by an affiliate of KKR, a leading global investment firm.

If the transaction were to complete, Pepper Group would de-list from the Australian Securities Exchange and return to private ownership.

Pepper shareholders will be given the opportunity to vote on the Scheme at a meeting of shareholders which is expected to be held in November 2017.

Documents relating to that meeting are currently being prepared and will be sent to all shareholders for their consideration in October 2017.

Directors have unanimously recommended that shareholders vote in favour of the scheme is the absence of a Superior Proposal and subject to an Independent Expert concluding (and continuing to conclude) that the scheme is in the best interests of Pepper shareholders.

Shareholders are not required to take any action at this time.

Pepper remains on track to achieve its financial guidance for 2017

Subject to market conditions, Pepper remains on track to achieve an Adjusted NPAT of at least \$67.5 million, excluding performance fees, for the 2017 financial year.

Commenting on the outlook, Mike Culhane said: "Each of our key operating regions enjoy favourable macro and micro environments however we must continually assess regulatory risks and changes in all jurisdictions.

"While Pepper's Australian business remains a core growth platform, Pepper's long term growth will primarily come from the investment we have made in European lending platforms as they build scale – particularly in the UK residential mortgage and Spanish consumer lending markets.

Certainty of future earnings growth remains dependent upon our continued investment in emerging and maturing businesses", concluded Mr Culhane.

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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 Prime Credit.

At 30 June 2017, Pepper had \$53.3 billion of assets under management (AUM).