



Pepper Group Limited

Interim results as at 30 June 2017
investor presentation

25 August 2017

Our mission statement

Our mission:
To help people succeed.



Can do



Balanced



Real

What Pepper does



Lending

Residential Mortgages

- Prime
- Near Prime
- Non-Conforming

Commercial Real Estate

- Small ticket

Consumer Lending

- Auto and Equipment Finance
- Point-of-Sale Finance
- Personal Loans
- Credit Cards



Asset Servicing

Management and administration of loans

- Own Originated
- Third Party (other banks and financial institutions)
- Performing and Non-Performing Loans
- Residential, Commercial and Consumer Loans



Advisory

Occupier Advisory and Capital Solutions

- Increasing Global reach driving CRE opportunities into Servicing and Lending business units

Pepper's 1H17 financial result up 20% on PCP

On track to meet full year guidance

1H17 Adjusted NPAT	\$28.3m	+ 20%
1H17 Statutory NPAT	\$28.1m	+15%
1H17 AUM	\$53.3bn	+ 1.5%
1H17 fully franked dividend	3cps	-

Dividend record date: 13 September, Payment date: 5 October

Financial performance

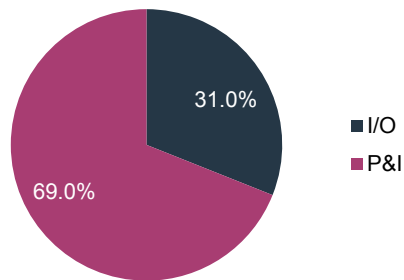
	1H16 Actual	1H17 Actual	PCP% change
Total income \$'m	193.9	219.4	↑ 13%
Adjusted NPAT \$'m	23.6	28.3	↑ 20%
Loan originations \$'m	2,211	2,828	↑ 28%
FTE headcount	1,677	2,074	↑ 24%

Assets Under Management (\$'bn)

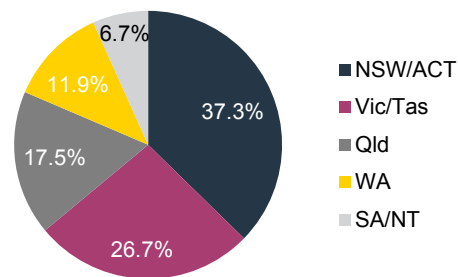
	Dec 31	June 30	% change
AUM	52.4	53.3	↑1.5%
Servicing AUM	45.4	45.3	-
Lending AUM	7.0	8.0	↑ 13%

Composition of Pepper's Australian residential loan portfolio largely unchanged since Dec 31

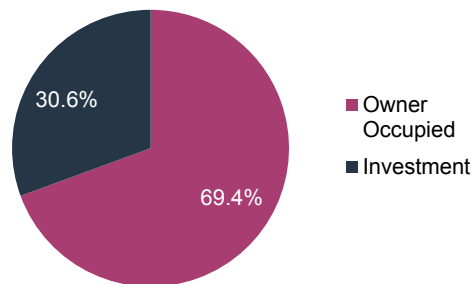
Payment Type



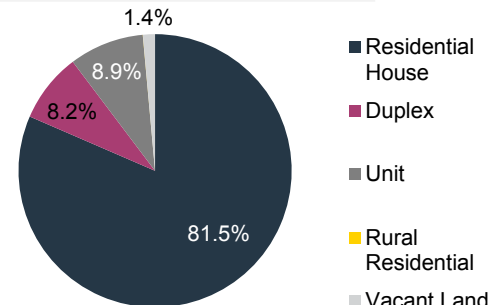
Geography



Occupancy Type



Dwelling Type

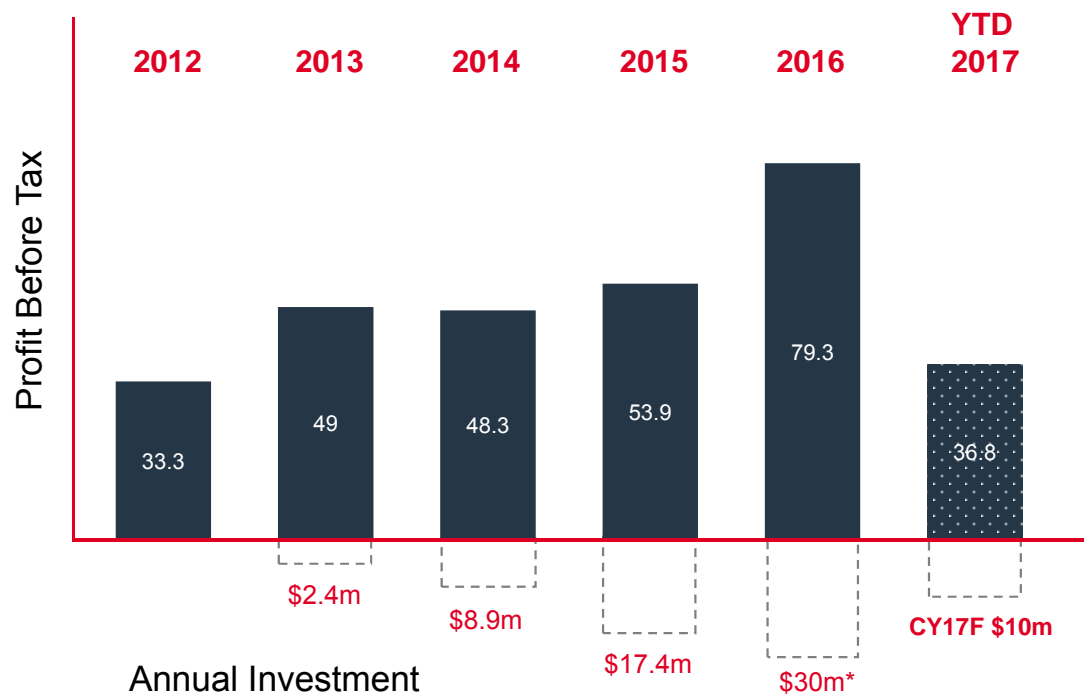


As at 30 June 2017

Regulatory environment – headwinds and opportunities

Development	Impact/Issues	Pepper's position
APRA oversight into non banks	APRA to be granted "Reserve powers" over Non Bank sector	Similar to powers granted to overseas regulators where Pepper operates Unintended consequences could reduce consumer choice and create uncertainty for debt investors
APRA limits on investor lending growth	ADIs expected to: - Limit new interest only lending to 30% of new lending - Limit portfolio growth of investor lending to 10%	Pepper has historically operated under warehouse limits on investor lending Loan book composition largely unchanged despite marginal increase in investor loan applications
APS 120	Potential to impact cost of funds in warehouse from 1 January 2018	Minimal impact expected. Significant progress has been made to fill any funding requirements as a result of APS120

Investment in lending platforms a prerequisite for future earnings growth



At least **\$150m** incremental equity capital required in excess of organic cash generation to fund BAU growth and Banco Primus

* Allocation of specific overhead costs began in December 2016 increasing the CY16 outcome

KKR Scheme of arrangement update

On 10 August 2017, Pepper signed a **Scheme Implementation Deed** with **KKR Credit Advisors**, that could see Pepper return to private ownership. Expected timetable is below.

Date*	Activity
August → October	Pepper to seek regulatory and other approvals
Mid October 2017	First Court hearing to convene the shareholder meeting
Mid October 2017	Pepper sends Scheme Booklet and voting documents to shareholders
Mid November 2017	Pepper Shareholder Meeting
Mid November 2017	Second Court Hearing to seek approval of the Scheme
Early December 2017	Implementation date
Early December 2017	Pepper officially de-lists from Australian Securities Exchange

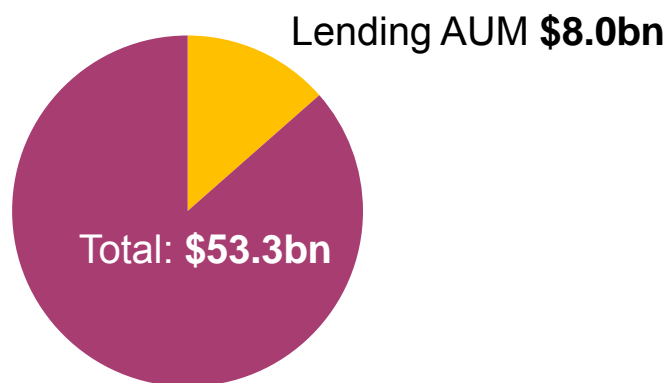
* Subject to change



Financials

Cameron Small, CFO

Overview of AUM as at 30 June 2017



Lending – up 13% from Q4 2016

- Origination growth in the Australian residential mortgage and auto finance businesses remain at record levels, driven by diversified distribution channels

Asset Servicing – flat compared to Q4 2016

- Incorporates impact of foreign currency translation on AUM balances

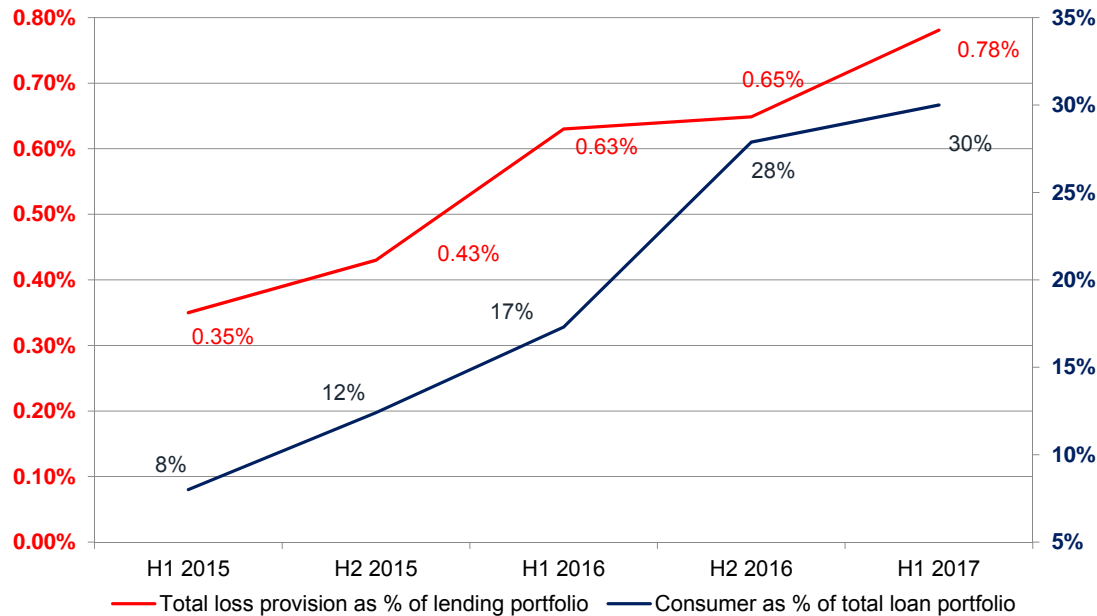
Servicing AUM \$45.3bn

	1H17	1H16	% Δ
Loan originations	\$2,828m	\$2,211m	28%

	31 March	30 June	31 July
90+ day Australian mortgage arrears	1.36%	1.55%	1.41%

Loan losses in line with growth in lending book

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
- Provisioning levels are in line with management expectations and historical product level loss vintage curves
- Credit policy discipline, collections and pricing for risk methodologies are mitigating factors

Growth in Income and NPAT continues

Long term investment supports organic growth in core businesses and recent new lending initiatives

\$ millions	Pro-forma	
	1H16 Actual	1H17 Actual
Income		
Lending income	86.3	114.3
Loan origination fees	11.9	18.5
Servicing and loan administration fees	89.7	77.2
Advisory and other income	6.0	9.4
Total income	193.9	219.4
Share of profit from associate	5.2	5.4
Total expenses	(169.2)	(187.9)
Profit before tax	29.9	36.8
Income tax expense	(5.5)	(8.7)
NPAT	24.4	28.1
Non-controlling equity interests	-	-
NPAT attributable to owners of the Company	24.4	28.1
Acquisition Amortisation	(0.8)	0.2
Adjusted NPAT	23.6	28.3

Segment analysis

	Australia & NZ		Europe		Asia		Corporate*		Total	
	1H16	1H17	1H16	1H17	1H16	1H17	1H16	1H17	1H16	1H17
Total income	83.4	104.0	82.0	70.9	28.3	40.2	0.3	3.8	193.9	219.4
Share of profit from associates	-	-	-	-	5.2	5.4	-	-	5.2	5.4
Profit before tax	25.0	31.7	13.6	8.8	7.9	13.8	(16.6)	(17.4)	29.9	36.8
AUM	6,432	7,773	45,519	44,081	1,051	1,441	-	-	53,002	53,295
Servicing AUM	1,248	1,792	45,317	43,510	-	-	-	-	46,565	45,302
Lending AUM	5,184	5,981	202	571	1051	1,441	-	-	6,437	7,993
Loan Originations	1,488	1,770	127	343	596	716	-	-	2,211	2,829

* Corporate segment result includes a one off gain on sale and interest paid on corporate debt

Income and PBT – ANZ

Strong organic lending growth and continued investment in lending products

\$ millions	Recourse	
	1H16 Actual	1H17 Actual
Australia and New Zealand Division		
Lending income	54.3	63.1
Loan origination fees	9.1	14.8
Servicing and loan administration fees	15.1	21.4
Advisory and other income	4.9	4.7
Total income	83.4	104.0
Commission and direct marketing expenses	(15.8)	(22.3)
Employee compensation and benefits expenses	(27.8)	(30.1)
Occupancy expenses	(1.8)	(3.1)
Professional expenses	(1.7)	(1.7)
Depreciation and amortisation expenses	(2.6)	(4.0)
General and administration expenses	(8.8)	(11.1)
Profit before tax (Australia and New Zealand Division)	24.9	31.7
AUM (recourse and non recourse)		
Servicing AUM	1,247.6	1,792.0
Lending AUM	5,184.3	5,981.5
Loan originations	1,487.7	1,769.7

- Origination growth in mortgages and asset finance underpinned by expanding our distribution
- Mortgages originations of \$1.38bn up 17% pcp
- Asset finance originations of \$375m up 21% pcp
- Improvement in product mix and resulting margins in Asset Finance
- Personal loans AUM is ahead of target with strong origination growth in May and June

Income and PBT - Asia

Solid contribution to group profit from Asia

\$ millions	Recourse	
	HY16 Actual	HY17 Actual
Asia Division		
Lending income	28.3	40.2
Loan origination fees	-	-
Servicing and loan administration fees	-	-
Advisory and other income	-	-
Total income	28.3	40.2
Share of profit from associate	5.2	5.4
Commission and direct marketing expenses	(9.2)	(11.1)
Employee compensation and benefits expenses	(10.9)	(13.7)
Occupancy expenses	(1.0)	(1.1)
Professional expenses	(1.1)	(0.9)
Depreciation and amortisation expenses	(0.9)	(1.1)
General and administration expenses	(2.5)	(3.9)
Profit before tax (Asia Division)	7.9	13.8
AUM (recourse and non recourse)	1,051.3	1,441.2
Servicing AUM	-	-
Lending AUM	1,051.3	1,441.2
Loan originations	595.8	715.7

- Record loan origination volumes in South Korea of \$716m up 20% pcp
- Successful pivot towards SME loans during period protecting margins
- Hong Kong performing ahead of budget

Income and PBT - Europe

Continuing to invest in growth initiatives across Europe

\$ millions	Recourse	
	1H16 Actual	1H17 Actual
Europe Division		
Lending income	3.5	10.9
Loan origination fees	2.8	3.2
Servicing and loan administration fees	74.7	55.8
Advisory and other income	1.0	1.0
Total income	82.0	70.9
Share of profit from associate	-	-
Commission and direct marketing expenses	(0.3)	(1.1)
Employee compensation and benefits expenses	(49.0)	(43.6)
Occupancy expenses	(3.7)	(3.6)
Professional expenses	(3.8)	(3.1)
Depreciation and amortisation expenses	(1.8)	(1.7)
General and administration expenses	(9.8)	(9.0)
Profit before tax (Europe Division)	13.6	8.8
AUM (recourse and non recourse)	45,518.5	44,080.7
Servicing AUM	45,317.0	43,509.7
Lending AUM	201.5	571.0
Loan originations	127.1	343.0

- Revenue impacted by FX translation (AUD strengthened against the GBP and EUR), offset by corresponding FX on expenses
- 1H16 revenues enhanced by ad-hoc on boarding and UK exit fees not present in 1H17

Lending

- Irish and UK lending on track
- Point of sale lending in Spain in line with expectations of above system growth in CY17

Servicing

- Challenger bank originations in the UK supporting installed AUM base
- Newly increasing CRE assets partially offsetting natural run off within the Irish portfolio

Statutory and recourse balance sheet as at 30 June 2017

\$million	Statutory (including limited- recourse funding vehicles)	Impact of excluding limited -recourse Funding Vehicles	Recourse (Excluding limited- recourse Funding Vehicles)
1	Assets		
Cash and cash equivalents	652.7	(443.0)	209.7
Securities	0.1	-	0.1
Derivative financial assets	0.8	(0.8)	-
Receivables	58.2	53.8	112.0
Other assets	37.1	-	37.1
Loans and advances	8,035.8	(6,546.5)	1,489.3
Deferred tax assets	12.8	(1.3)	11.5
Investments	131.7	226.5	358.2
Property, plant and equipment	24.2	-	24.2
Goodwill	47.8	-	47.8
Intangible assets	22.0	-	22.0
Total assets	9,023.2	(6,711.3)	2,311.9
Liabilities			
Deposits	1,451.4	-	1,451.4
Derivative financial liabilities	9.3	(9.3)	-
Trade and other payables	28.4	(1.7)	26.7
Current tax liabilities	6.8	-	6.8
Borrowings	6,931.0	(6,739.9)	191.1
Other liabilities	103.3	36.4	139.7
Provisions	24.5	-	24.5
Deferred tax liabilities	-	-	-
Total liabilities	8,554.7	(6,714.5)	1,840.2
Net assets	468.5	3.2	471.7
Equity			
Issued Capital	299.9	-	299.9
Other Reserves	(20.9)	3.1	(17.7)
Retained earnings	189.9	0.1	190.0
Total equity excl. non-controlling interests	468.9	3.2	472.1
Non-controlling interests	(0.4)	-	(0.4)
Total equity	468.5	3.2	471.7

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 Recourse cash also includes:

- \$101.4m of restricted cash held in Pepper Savings Bank which is unable to be transferred from South Korea
- \$64.3m held on trust as part of Pepper's day-to-day clearing and origination operations.



Outlook

Mike Culhane – Group CEO

Banco Primus acquisition

Expands European activities and provides option of stable source of funding via banking licence

- In line with Pepper's ongoing expansion strategy and leverages existing European platforms
- Banco Primus has achieved strong market share in the used auto loans market despite a competitive market dynamic
- Pepper is paying \$95m (€65m) for 100% of the shares in Banco Primus
- Transaction will be funded through a combination of cash in the business, the release of capital from existing warehouse facilities and a capital contribution from Pepper
- Subject to Bank of Portugal and European Central Bank approval. Expected to close in Q1 2018
- Pepper has a number of options available to it to fund the capital requirements over the intervening time period. Expected to be EPS accretive in the first full year of ownership

Pepper's strategic priorities remain unchanged



Support global growth

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



Seek new operating markets offshore

Evaluating several earnings accretive lending and servicing opportunities



Expense management

Seek to leverage operating efficiencies across our markets

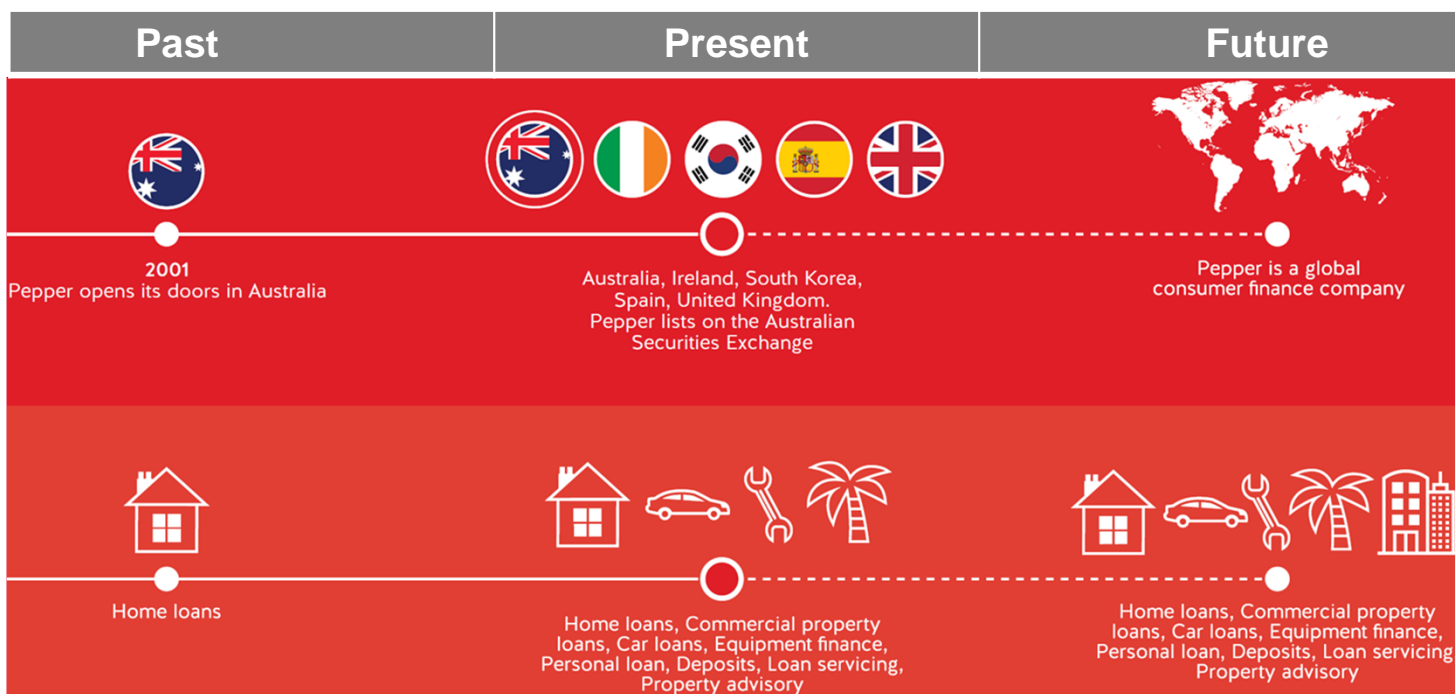


Optimise use of capital

Deploy capital to support lending growth objectives

Strong growth will continue to be our story

Access to capital underpins our long term Group lending and servicing initiatives



On track to meet full year guidance

- 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

Recourse financial statements

This presentation predominantly deals with Recourse financial information

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Statutory financial statements

See page 25

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**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	
	1H16 Actual	1H17 Actual
Revenue	326.0	369.5
Share of profit from associate	5.2	5.4
Employee compensation and benefits expenses	(98.7)	(99.3)
Depreciation and amortisation expenses	(4.3)	(7.1)
Borrowing costs	(120.2)	(138.5)
Other expenses from operations	(78.1)	(93.2)
Profit before tax	29.9	36.8
Tax expense	(5.5)	(8.7)
NPAT	24.4	28.1
Non-controlling equity interests	-	-
NPAT attributable to owners of the Company	24.4	28.1

Reconciliation of statutory and adjusted NPAT statements

\$ millions	1H16 Actual	1H17 Actual
Total Income		
Statutory revenue	326.0	369.5
Adjustments to de-consolidate the Funding Vehicles		
De-consolidation of income recorded by the limited-recourse Funding Vehicles	(213.0)	(223.3)
1 Recognition of coupon interest and distribution income received from the Funding Vehicles	66.3	63.3
2 Recognition of servicing and administration income received from the Funding Vehicles	21.4	22.5
Subtotal: Adjustments to exclude the limited-recourse Funding Vehicles	(125.4)	(137.5)
Adjusted total income (excluding limited-recourse Funding Vehicles)	200.6	232.1
Other adjustments		
Reporting reclassifications	(6.7)	(12.7)
PrimeCredit full year recognition (management fee)	-	-
3 Recourse total income	193.9	219.4
NPAT		
Statutory NPAT	24.4	28.1
Recourse NPAT	24.4	28.1
Acquired intangible asset amortisation	(0.8)	(0.6)
Recourse adjusted NPAT	23.6	27.5

1 Recognition on recourse 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 recourse 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 Recourse disclosure purposes between Income and expenses eg:

- Deposit interest and loan losses
- Broker commissions.

Recourse and Statutory consolidated cash flows

Cash flows from operating activities remain consistent with expectations

\$ millions	Statutory 1H17	Recourse 1H17 Actual ¹
Operating activities		
Fee revenue receipts from customers	152.7	218.7
Payment to Suppliers and employees	(273.8)	(265.7)
Interest received	312.9	85.4
Interest and other finance costs paid	(156.3)	(31.4)
Income taxes paid	(5.9)	(5.9)
Net operating cash flow	29.6	1.0
Net Investing activities	(948.2)	(274.1)
Net Financing activities	789.0	122.4
Effects of exchange rates	0.2	0.2
Net increase/(decrease) in cash	(129.4)	(150.4)
Balance at beginning of year	782.1	360.1
Balance at end of year	652.7	209.7

1. Recourse - Statutory excluding limited recourse funding vehicles

Recourse and Statutory consolidated cash flows

\$ millions	Statutory 1H17	Recourse 1H17 Actual
Reconciliation of operating activities		
Profit after tax	28.1	28.1
Non cash expenses / (revenue)		
Share of profit from associate	(5.4)	(5.4)
Taxation	10.3	10.3
Depreciation and amortisation	7.1	7.1
Securitisation deal cost amortisation	4.1	3.5
Upfront broker fee amortisation	29.5	29.5
Unearned Income amortisation	(10.5)	(10.5)
1 Loan write-offs	44.2	28.7
Management incentive expense	1.3	1.3
Employee related provisions	(4.6)	(4.6)
Accrued interest on deposits (Korea)	(1.0)	(1.0)
Interest rate hedge expenses		
Exchange differences	0.1	(0.1)
Cash (expenses) / revenue		
Tax paid	(5.9)	(5.9)
Upfront broker fee paid	(31.2)	(31.2)
2 Unearned Income received	12.3	12.3
Broker assumption costs	(3.6)	(3.6)
Movement in working capital / balance sheet items		
3 Net operating cash flow (excl cash held on trust)	71.0	42.5
Cash clearing balances	(41.4)	(41.4)
Net operating cash flow	29.6	1.0

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

2 Upfront payments for origination of assets in Australia and Korea. Asset Finance originations in Australia are offset in Recourse by funds raised in a limited recourse funding vehicle and disclosed for Statutory purposes as a Financing activity.

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

Statutory consolidated cash flows

\$ millions	Statutory 1H17	Recourse 1H17 Actual
Investing activities		
Property, plant and equipment and intangibles	(3.8)	(3.8)
	(13.4)	(13.4)
Net disposal of Investments	2.4	5.8
Amounts (Advanced to) / received from related parties	0.6	0.0
Arrangement fees	(4.4)	(4.4)
1 (Payment) / repayment of notes	2.0	(39.6)
(Payment) / repayment for securities	81.3	81.3
2 Net loan advances and collections	(1,610.7)	(377.8)
Net cash outflow from disposal of subsidiaries	-	-
Investment in associate	1.9	1.9
3 Sale of loan portfolios	595.8	75.8
Net cash from investing activities	(948.2)	(274.1)
Financing activities		
Proceeds from Issue of capital	-	-
4 Proceeds from / (Repayment of) Borrowings	713.6	47.0
5 Net increase in deposits	85.6	85.6
Dividend (paid)	(10.2)	(10.2)
Net cash from financing activities	789.0	122.4

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, UK 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"> • 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) • Interest on loan notes in third party trusts • Net interest income on loans in South Korea
Loan origination fees	Includes: <ul style="list-style-type: none"> • Application fee • Mortgage risk fees
Servicing and loan administration fees	Includes: <ul style="list-style-type: none"> • Servicing and trust management fees on Pepper-originated or acquired Funding Vehicles • Servicing fees received from third party trusts • Performance fees, which accrue where trusts meet discrete performance benchmarks
Advisory and other income	Includes: <ul style="list-style-type: none"> • Advisory Income from Pepper Property Group • Advisory Income from due diligence services in Ireland • Management services fees from PrimeCredit
Statutory and Recourse Balance Sheet	
Cash and cash equivalents xxx	Statutory includes cash held at corporate level, as well as cash held in non-recourse Funding Vehicles as collateral for warehouse funders. Statutory and Recourse cash also includes: <ul style="list-style-type: none"> • \$101.4m of restricted cash held in Pepper Savings Bank which is unable to be transferred from South Korea • \$64.3m held on trust as part of Pepper's day-to-day clearing and origination operations.
Deferred tax assets	Primarily relates to: <ul style="list-style-type: none"> • Customer loan receivables and lease receivables held at the limited-recourse Funding Vehicle level • Loans and advances from Pepper Savings Bank, which are held on balance sheet (net of provisions for doubtful debts)
Property, Plant and Equipment	On a statutory basis primarily relates to: <ul style="list-style-type: none"> • Capitalised deal costs • Investments in third party Funding Vehicles held in Pepper Ireland • Investment property held in Pepper Savings bank On a Recourse 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"> ● Drawn debt financing facilities including notes and warehouse facility funding at the limited recourse Funding Vehicles ● Accrued interest payable to funding providers at the limited-recourse Funding Vehicle level ● Corporate debt Recourse 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"> ● Gross interest income on loans ● Servicing fees from third parties ● Other income from third parties Statutory income is not shown net of funding costs
Borrowing costs	Statutory borrowing costs consist of: <ul style="list-style-type: none"> ● Interest paid on corporate debt borrowed and guaranteed by Pepper ● Interest paid by Pepper controlled limited-recourse Funding Vehicles to third party note holders and lenders ● Excludes interest expense paid to Pepper on Funding Vehicle equity notes and units held in the PIM funds

Disclaimer

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