

Pepper reports CY15 Adjusted NPAT of \$48.6m, up 38% on prior year

Results ahead of prospectus forecasts for income, adjusted NPAT and AUM

Highlights

- Assets Under Management (AUM) of \$45.5 billion, up 59%
- Total income of \$304.3 million, up 30% (CY14: \$234.9 million)
- NPAT of \$42.1 million, up 23% (CY14: \$34.2 million)
- CY15 Adjusted NPAT of \$48.6 million, up 38% (CY14: \$35.1 million)
- Fully franked final dividend of 3 cents per share (cps)
- Strong growth platform with:
 - Record residential lending volumes in Australia driven by multiple distribution channels
 - Outperformance of international servicing, with income up 72% following significant mandate wins and AUM growth
 - Continued investment in new business opportunities, including commencement of lending in UK and Ireland
- Significant liquidity on balance sheet and diversified funding model providing flexibility for future growth

Pepper Group Limited (Pepper; ASX:PEP), a specialist residential mortgage and consumer lender and loan servicer, today announced its results for the 12 months ended 31 December 2015.

Pepper reported pro forma total income of \$304.3 million and statutory total income of \$527.2 million. Statutory income includes income from limited recourse warehouses and Special Purpose Vehicles (SPVs) but excludes associated funding costs.

Pro forma NPAT for CY15 was \$42.1 million and Statutory NPAT was \$3.4 million. Adjusted NPAT was \$48.6 million, up 38% on CY14 and exceeding prospectus forecasts by 3.4%.

Pepper's Co-Group Chief Executive Officer, Patrick Tuttle, said the results underscored the company's strong track record of growth.

"Our reported result is in line with management's expectations and above prospectus forecasts, demonstrating the continued strong growth trajectory of Pepper. Over the past five years, the team has grown assets under management at a compound annual growth rate of 126%. Today's result is consistent with that performance and is a credit to the entire

Pepper team. Following the IPO, we have welcomed many of our long term team members as shareholders, aligning interests and maintaining focus.

“Our business continues to grow strongly across its core lines including residential mortgages, consumer lending and loan servicing. With income diversified across capabilities, asset classes and geographies Pepper is able to pursue growth opportunities through the credit cycle.”

Strong growth in AUM

Pepper has a consistent track record of delivering growth, increasing its combined lending and servicing assets under management (AUM) from \$4.0 billion in 2012 to \$45.5 billion at the end of CY15, representing a compound annual growth rate (CAGR) of 126%.

Servicing

Pepper’s Servicing business continues to perform strongly across geographies, with servicing AUM up 63% to \$39.9 billion and income for the calendar year up 46% to \$167.4 million. During the second half, Pepper won a number of new servicing contracts in the UK, Ireland and Spain, including a contract to provide third-party servicing to Lloyds Banking Group’s Irish residential loan portfolio.

Co-Group Chief Executive Officer Mike Culhane said: *“We are very pleased with the continued performance of our servicing business, underscoring Pepper’s strong reputation in this market across a growing number of geographies.*

“The pipeline of opportunity for servicing contracts remains strong as financial institutions and governments continue to deleverage and regulatory oversight increases. Pepper has strong existing relationships with potential buyers of European assets and we’re known in the market for our flexibility, our IT capability and our ‘lender mentality’. We will continue to grow our servicing portfolio into 2016 from this strong competitive position.”

Lending

Pepper grew lending AUM by 34% to \$5.6 billion in CY15, delivering income of \$105.9 million, up 27% on last year.

Pepper achieved strong organic growth in Australian residential mortgages during the calendar year. The company also launched its first direct-to-consumer campaign in Australia, building brand awareness and supplementing its established broker and white-label distribution channels. Australian mortgage settlements increased by 36% in CY15, with broker originated loans up 37%, direct-to-consumer up 57% and white label up 30%.

Pepper observed a strong improvement in delinquency rates in the second half, underscoring the success of Pepper’s early detection / early resolution collection approach and strong credit underwriting capabilities.

Pepper also experienced strong consumer lending activity in Spain during CY15 and continued to expand its consumer loan product offering in South Korea.

Co-Group Chief Executive Officer Mike Culhane said: *“Australian residential lending volumes remained strong during the year with Pepper experiencing record originations, up 36%.*

Lending performance was supported by increasing penetration of national broker networks, white-label partnerships and further investment in our direct-to-consumer channel which continues to build consumer awareness of Pepper's brand in the community.

"International consumer lending performed strongly in both Spain and South Korea. We also expect a further ramp up of our recently-established lending businesses in the UK and Ireland into 2016."

Balance sheet strength and diversified funding model

Pepper maintains its strong financial position with net cash on balance sheet of \$225.8 million and pro forma net assets of \$409.4 million as at 31 December 2015. This equates to a net book value of \$2.26 per share.

The company continues to maintain a diversified funding model with additional capacity in corporate debt facilities; senior warehouse facilities with major banks and investment banks; public and private securitisation trusts; active whole loan sale programs; and retail deposits.

Pepper has the capacity to manage funding cost increases (and hence NIM pressure) through active portfolio repricing. Term funding costs are locked in for the life of a transaction, meaning short term volatility does not have a material impact on overall Group funding costs. Management constantly monitors portfolio pricing on Pepper's front and back consumer loan books relative to current market conditions and competitor activity, and has the ability to unilaterally adjust portfolio pricing as required.

Pepper expects RMBS funding margins to remain elevated for the duration of 2016. Anticipating wider margins, Pepper increased interest rates across its entire Australian mortgage portfolio by 20bps from 1 December 2015 and new business lending rates in November 2015.

Pepper has both the liquidity and flexibility to continue to fund future growth opportunities as they emerge both in Australia and offshore.

Co-Group Chief Executive Officer, Patrick Tuttle, said: *"Our strong warehouse funding and securitisation program, coupled with innovative product design and funding techniques will ensure that Pepper continues to have a significant role in shaping the residential mortgage sector in Australia."*

Maiden fully franked final dividend declared

The Directors of Pepper Group have declared its maiden dividend for the 6 months to 31 December 2015, fully franked at 3 cents per share. The record date for this dividend will be 4 April 2016 and the payment date is 20 April 2016.

Outlook

Management believes multichannel distribution will continue to drive lending growth in Australia. Internationally, Pepper sees continued loan servicing and lending opportunities as traditional banks withdraw to core lending markets.

Subject to market conditions, and based on our expectation of wider funding margins, Pepper is targeting an Adjusted NPAT of at least \$59 million for CY16.

CY16 builds on CY15 momentum driven by:

- Australian monthly loan completions running at record levels in the mortgage segment and growing quickly in the PAF business segment
- European servicing AUM and NPAT growth as portfolios boarded last year benefit from the full year effect, as well as portfolios won last year that will be boarded in CY2016
- Continued strong earnings growth in South Korea driven by increasing consumer lending volumes and balance sheet scale
- Actively pursuing new partnership and platform opportunities in Europe

ENDS

For further information contact:

Investors

Melinda Hofman

+612 9463 4675

+61 438 855 991

Media

Lauren Thompson

+61 2 9119 3078

+61 438 954 729

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 2015, Pepper had \$45.5 billion of assets under management (AUM).