

Thursday, 24 March 2016

Pepper prices record \$700 million Non-Conforming RMBS Issue

Pepper Group Limited (Pepper) (ASX:PEP) today priced its \$700 million Pepper Residential Securities Trust No.16 ("PRS16") transaction. This is the largest non-conforming RMBS (Residential Mortgage-Backed Securities) deal in Pepper's history, and the largest non-conforming mortgage securitisation in the Australian market since 2006.

The transaction was originally marketed at \$600 million, however strong demand saw the order book heavily scaled and the issue upsized to \$700 million. At the initial deal size, the book was oversubscribed by more than 85%.

Following on from the recent \$400 million whole loan sale announced on 17 March 2016, Pepper has now locked in \$1.1 billion of its 2016 term funding requirements in the first quarter, despite recent liquidity concerns for Australian issuers seeking to access the debt capital markets.

The transaction's senior AAA-rated AUD note priced at 170bps over 1m BBSW, which is 40bps wider than the equivalent PRS15 pricing margin. The structure benefited from a USD tranche totalling US\$280 million (approximately A\$368 million) of funding. The strategic use of this USD tranche meant that the expected overall transaction cost increased by less than the increase in the Senior AAA-rated AUD Note, when comparing PRS15 to PRS16.

The book build was very diverse with 22 accounts participating in the deal. Approximately 79% of the book was represented by real money investors, 76% of which were from offshore.

Commenting on the transaction, Pepper Group's Co-Group CEO, Patrick Tuttle said, "This is a landmark transaction for Pepper, being the largest in our history and the largest Australian non-conforming mortgage securitisation in the last decade. As a regular issuer, it reaffirms our confidence in the resilience of the global debt capital markets and the high regard in which the Pepper name is held among both Australian and international investors in those markets."

Pepper Group's Co-Group CEO, Mike Culhane added, "This transaction demonstrates the continuing strong demand for our PRS programme in Australia and abroad, particularly among real money investors. Our ability to regularly access global capital is testament to Pepper's expertise in originating and servicing high quality residential mortgage assets and remains a core strength of our business."

Pepper was assisted in this transaction by National Australia Bank (Joint Lead Manager, Arranger and Redemption Facility Provider), Commonwealth Bank (Joint Lead Manager and Cross Currency Swap provider), and Westpac Banking Corporation (Joint Lead Manager). In the United States, Pepper was assisted by nab Securities LLC (Joint Lead Manager and Arranger) and Citigroup Global Markets (Joint Lead Manager).

This is Pepper's first public RMBS transaction for 2016, its sixteenth transaction backed by its non-conforming loans and its nineteenth RMBS transaction in the public markets.

For more information please contact:

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Transaction details

Class of notes	Provisional Ratings Moody's / S&P	Issue Amount (Million) ¹	WAL (Years)	Issue Margin
A1-u1	P-1(sf) / A-1+(sf)	\$US280.00m (A\$368.00m)	1.0	LIBOR 1M + 0.73%
A1-a	Aaa(sf) / AAA(sf)	\$A122.00m	2.2	BBSW 1M + 1.70%
A-2	Aaa(sf) / AAA(sf)	\$A93.80m	2.2	BBSW 1M + 2.25%
B	Aa2(sf) / NR	\$A61.60m	3.9	BBSW 1M + 3.00%
C	A2(sf) / NR	\$A14.00m	3.9	Undisclosed
D	Baa2(sf) / NR	\$A12.60m	3.9	Undisclosed
E	Ba2(sf) / NR	\$A7.70m	3.7	Undisclosed
F	B2(sf) / NR	\$A9.10m	2.8	Undisclosed
G	NR / NR	\$A11.200m	5.0	Undisclosed

1. WAL is based on a linear CPR ramp of 22%-30% over the first 12 months from the settlement date and then a flat CPR of 30% thereafter, Stepdown Criteria being met and Call Option being exercised at the first available opportunity.

All tranches were priced at par.

Settlement Date: 31 March 2016

Clean up call: Any Payment Date occurring:

- From March 2021 (ie 5 years); or
- When the aggregate Invested Amount of the Notes outstanding is less than 20% of the aggregate initial Invested Amount of the Notes

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).