



# Pepper Group Limited

Macquarie Bank Australia Conference

4-6 May 2016

# What Pepper does

Focused on lending and asset servicing across the globe



## Lending

### Residential Mortgages

- Prime
- Near Prime
- Non-Conforming

### Consumer Lending

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

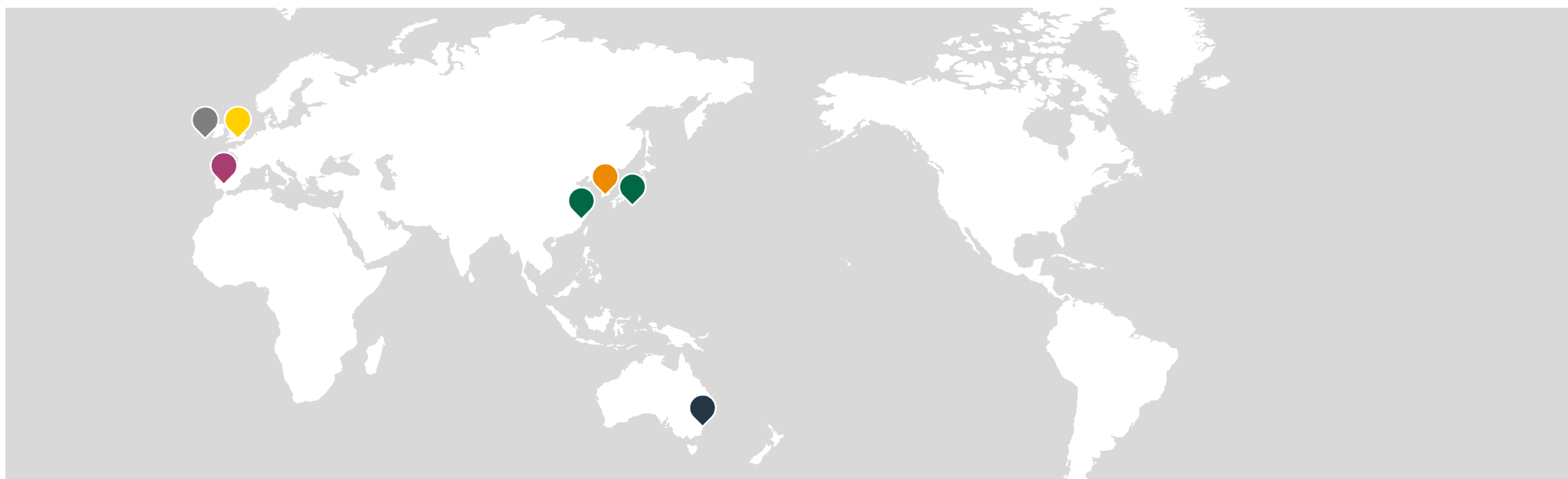


## Asset Servicing

### Management and administration of loans

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

# Where Pepper operates around the World



## Australia

Residential mortgages  
Auto & equipment finance  
Asset Servicing

## Ireland

Residential mortgages  
3<sup>rd</sup> Party Asset Servicing

## UK

Residential Mortgages  
3<sup>rd</sup> Party Asset Servicing

## Spain

Point of Sale Finance  
Personal L  
3<sup>rd</sup> Party Asset Servicing

## Sth Korea

Residential mortgages  
Personal Loans  
Auto Finance

## China and HK\*

Personal Loans  
Credit Cards

\* Pepper has a 12% stake in Prime Credit – a specialist consumer finance business, offering consumer loans and credit cards, located in Hong Kong and China

# Pepper today

A diversified lender and specialist loan servicer in global markets underserved by banks

1Q16 AUM<sup>1,2</sup>


















**\$44.4bn**

CY15  
pro forma  
Income

**\$304.3m**

CY15  
Adjusted  
NPAT

**\$48.6m**

Operations	Pepper's regions		Pepper's products	AUM <sup>1</sup>
	ANZ	International		
Mortgage lending		   	<ul style="list-style-type: none"> <li>– Non-conforming, near prime and prime residential lending</li> <li>– Some legacy acquired prime portfolios</li> </ul>	~\$4.7bn
Consumer lending		  	<ul style="list-style-type: none"> <li>– Personal loans, point of sale lending, auto loans, equipment finance and credit cards</li> </ul>	~\$1.3bn
Third party servicing		  	<ul style="list-style-type: none"> <li>– Residential mortgages, commercial mortgages and consumer finance receivables</li> </ul>	~\$38.4bn
Advisory		  	<ul style="list-style-type: none"> <li>– Commercial property advisory</li> <li>– Portfolio due diligence services</li> <li>– Management fees</li> </ul>	NA

1. As at 31 March 2016

2. Excludes PrimeCredit in which Pepper holds a 12% non controlling interest

# Pepper's strong growth platform

**Record domestic originations via multiple channels**

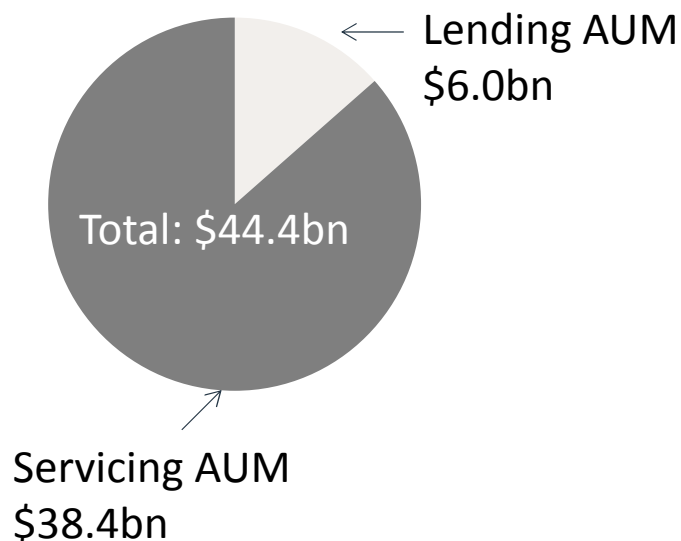
**Continuing investment in new business opportunities**

**Significant offshore asset servicing contracts**

**Diversified funding mix supports lending growth**

**Diversified growth and earnings across our lending and servicing businesses**

# Overview of AUM as at 31 March 2016



## Lending – up 7.06% from Q4 2015

- Strong origination growth in the Australian residential mortgage and auto finance businesses driven by diversified distribution channels
- Strong origination run-rates continuing into Q2, particularly for Australian mortgages and auto lending and South Korean mortgage and personal lending

## Asset Servicing – down 3.88% from Q4 2015

- Slightly down due to impact of foreign currency translation on AUM balances
- Solid European pipeline for rest of 2016
- On boarding \$8.3 billion Lloyds Banking Group contract in Ireland will markedly increase AUM in the 2<sup>nd</sup> quarter

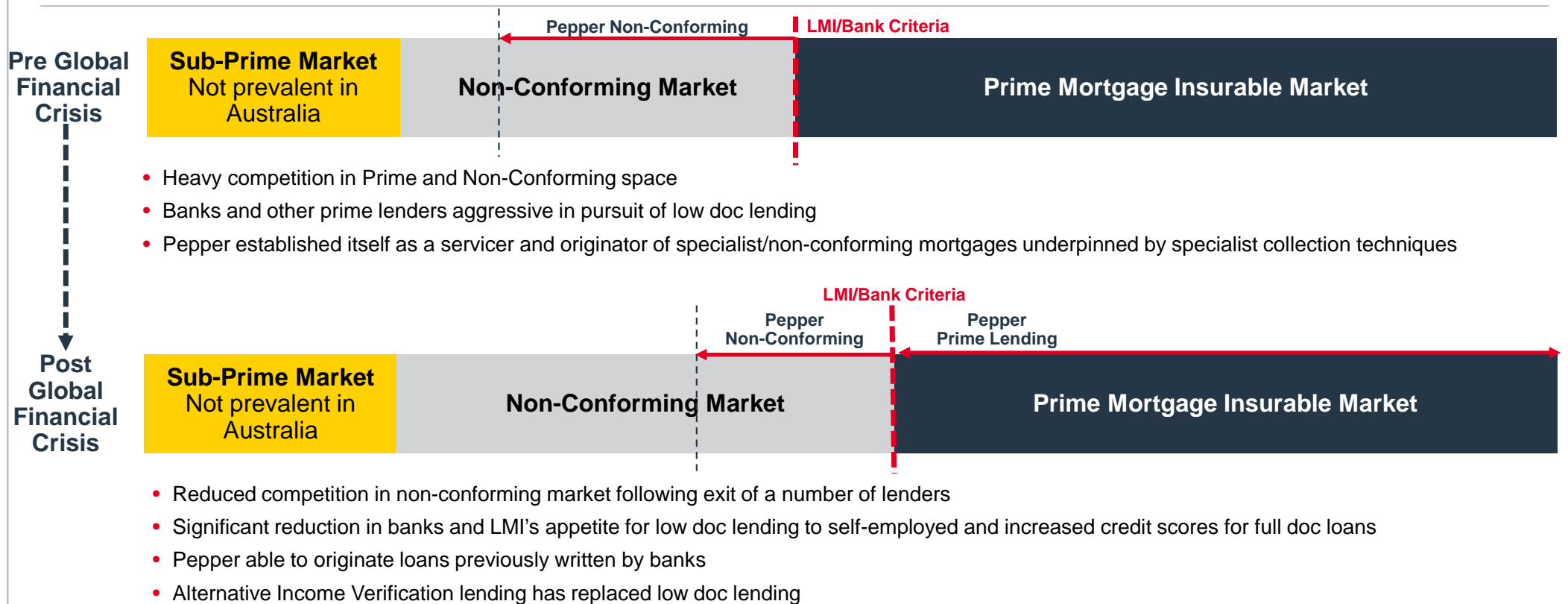
	1Q16	1Q15	% Δ
Loan originations	\$1056.3m	\$503.m	110%
90+ day arrears	1.62%	2.37%	(32)%



# Lending Fundamentals

Patrick Tuttle – Co-Group CEO

# Post GFC Pepper's lending scope is much broader





# We are now a broad based lender across all risk profiles

## PRIME

Customers who qualify for a loan product from a major bank

- No credit impairment
- No LMI, self-insured
- Fast turnaround, higher than bank NIM

- Full doc
- Alternative Doc
- PAYG
- Self-employed
- Purchases
- Re-finances
- Investors
- Homeowners

## NEAR PRIME

Customers who fail to qualify for a major bank product due to minor issues

- Fail automated credit scoring models
- Consolidation of multiple consumer debts
- Irregular savings and employment history

- Full doc
- Alternative Doc
- PAYG
- Self-employed
- Purchases
- Re-finances
- Investors
- Homeowners

## NON CONFORMING

Customers who have suffered a life event resulting in an adverse credit file

- Illness or medical condition
- Marital separation or divorce
- Short term unemployment

- Full doc
- Alternative Doc
- PAYG
- Self-employed
- Purchases
- Re-finances
- Investors
- Homeowners

# Only ~30% of non conforming customers have a credit blemish



Unusual income\*



Credit impairment



Self-employed



Gifted savings



Require loan for debt consolidation



Employment History



Alternative income documentation



Uncommon property

\* Pepper does not lend to non-residents

Source: Pepper Group commissioned research: December 201

# Core competencies drive strong credit performance

Our mortgage lending book has performed through the cycle as a result of our bespoke credit underwriting and loan servicing procedures and proven ability to price for risk

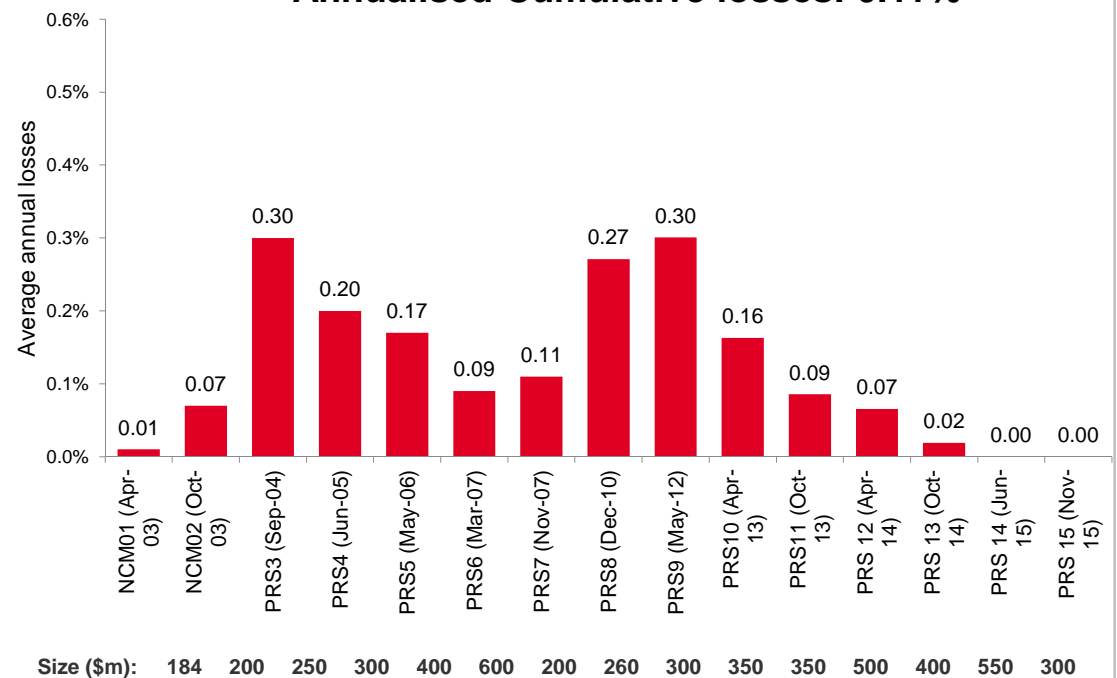
## Underwriting and risk selection criteria

- As a specialist lender, Pepper uses experienced underwriters to assess the individual characteristics of every borrower
- Using credit policies and guidelines developed over 15 years, a risk assessment is made on the appropriate loan amount, loan to value and pricing of the loan
- Pepper has enhanced underwriting and risk selection criteria since 2010, which combined with a focus on the near prime segment, has resulted in losses reducing materially over the period since

## Pepper's non-conforming loans portfolio

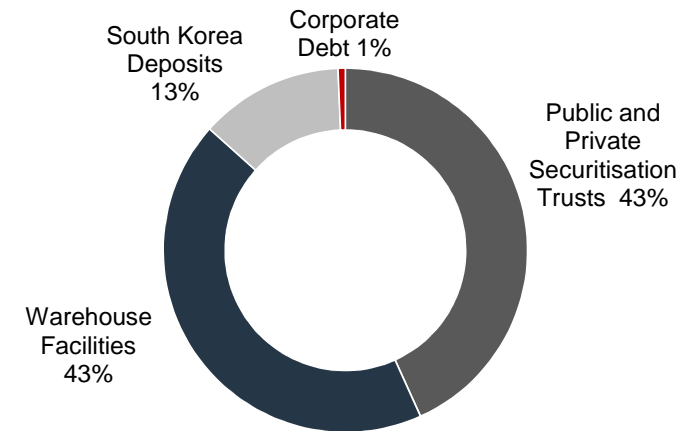
	Weighted Average Current LVR
Pepper originated	72.15%
Pepper acquired	64.86%
Total active portfolio	70.46%

## Annualised Cumulative losses: 0.11%



# Pepper has a range of funding sources available

- **Term securitisations** – attracting domestic and international investors
- **Retail deposits** in South Korea
- **Senior warehouse facilities** of differing tenors in all jurisdictions\*repricing on different roll dates in 2016 & 2017
- **Active whole loan sale programs** (Australia & South Korea)
- **Corporate debt facilities and cash**
- **Short term commercial paper market not used**



**Global sources of funding  
as at 31 December 2015**

Adequate headroom is maintained across all warehouses commensurate with current lending run rates

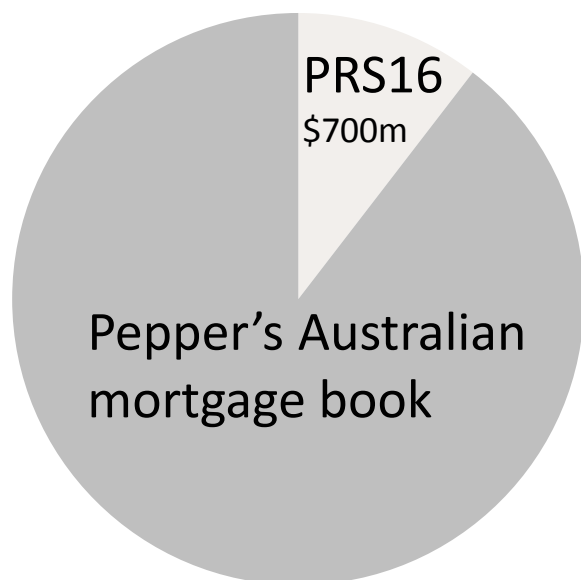
\* Excluding South Korea as it is deposit funded

# Funding – Business as Usual

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- Priced record \$700 million Pepper Residential Securities Trust No.16 (“PRS16”) transaction in March 2016
- Average cost of funding for this deal increased by circa 40bps over PRS15 deal completed in October 2015 – this equates to a 6.5bps increase in funding costs across entire Australian mortgage book
- Also completed \$400 million whole loan sale transaction in March 2016 – transferring economic ownership of the underlying loan portfolio to the institutional buyer whilst retaining servicing
- Anticipate completing additional whole loan transactions and PRS17 transaction in 2H 2016
- Strong RMBS/ABS deal flow since March, including 5 new deals for an aggregate ~A\$3.6 billion in April alone – 3 were ABS, 1 Non-Conforming RMBS and 1 Prime RMBS
- Non-banks have been the dominant issuers by number. Among 11 public transactions in 2016 so far, 7 have been priced by non-banks
- Expect funding margins to remain at similar levels but strong visibility and confidence in market liquidity and RMBS investor appetite

# A single RMBS issuance doesn't reprice the entire book



## Funding margins are proactively managed

- Portfolio pricing - front and back books
- Staggered maturity / roll dates of facilities
- Periodic refinancing
- Term securitisation and whole loan sales

# Lending a strong CY15 contributor

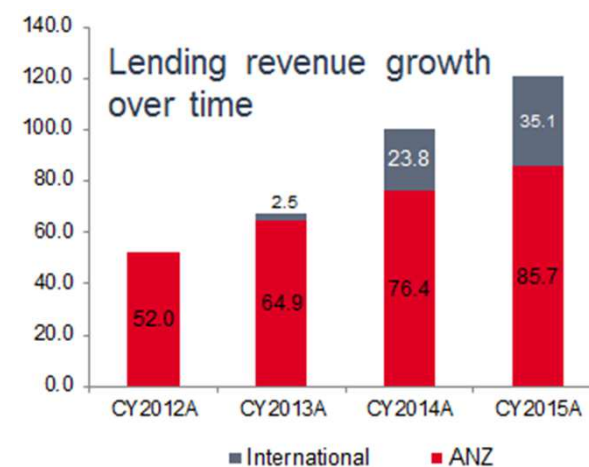
## Income up 20.5%

### International

- Expansion of consumer loan product offering in Korea.
- Strong consumer lending activity in Spain.
- Slower than forecasted ramp-up in UK mortgage lending.

### Australia/New Zealand

- Record mortgage originations of \$1.86bn up 36%.
- Benefit from interest rate increase across entire book effective 1 December.
- Slower ramp up of PAF originations in favour of bedding in service standards.



# Solid Fundamentals Underpin CY16 Outlook in Pepper's Core Lending Markets

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## International

- Stable or expanding GDP growth in core lending markets across UK, Ireland, Spain, South Korea, HK/China
- Stable or decreasing unemployment rates in core European and Asian markets
- Stable to increasing house price growth in UK, Irish and South Korean residential mortgage markets
- Stable or improving consumer confidence in core consumer lending markets (Spain, South Korea, HK/China)

## Australia/New Zealand

- Moderating house price growth across major capital cities
- Australian unemployment rate is expected to remain stable
- Historically low delinquencies underpinned by record low interest rate environment and low inflation
- Strong credit quality across prime, near prime and non-conforming mortgage portfolios reflected by historically low loss experience





# Asset Servicing Fundamentals

Mike Culhane – Co Group CEO

# Current servicing pipeline throughout Europe

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## Spain

Reviewing €1.1 billion transaction in mortgage and unsecured categories. Sellers are Spanish Banks.



## Ireland

Addressable market this year of €8-9b principally from NAMA and Ulster Bank. €6.5 billion CRE assets in the market.



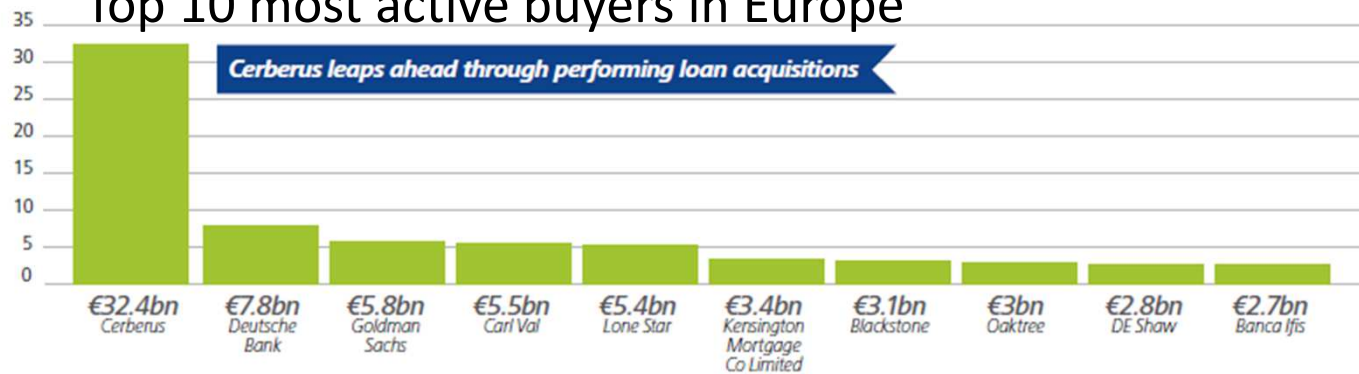
## United Kingdom

Reviewing £1.5 billion of CRE Assets.

General shift away from de-leveraging to new origination servicing. One deal recently won and two others in contention.

# Pepper linked to the most active servicing players in Europe

## Top 10 most active buyers in Europe

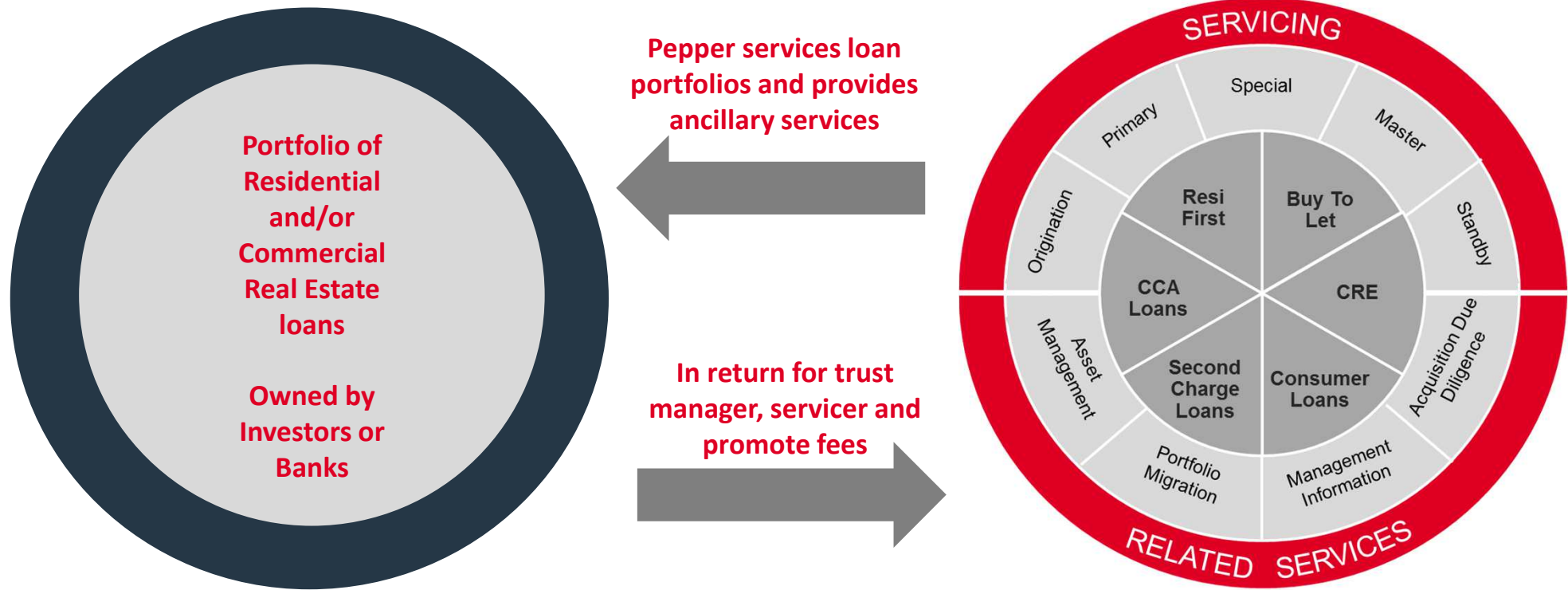


## Top 10 most active sellers in Europe

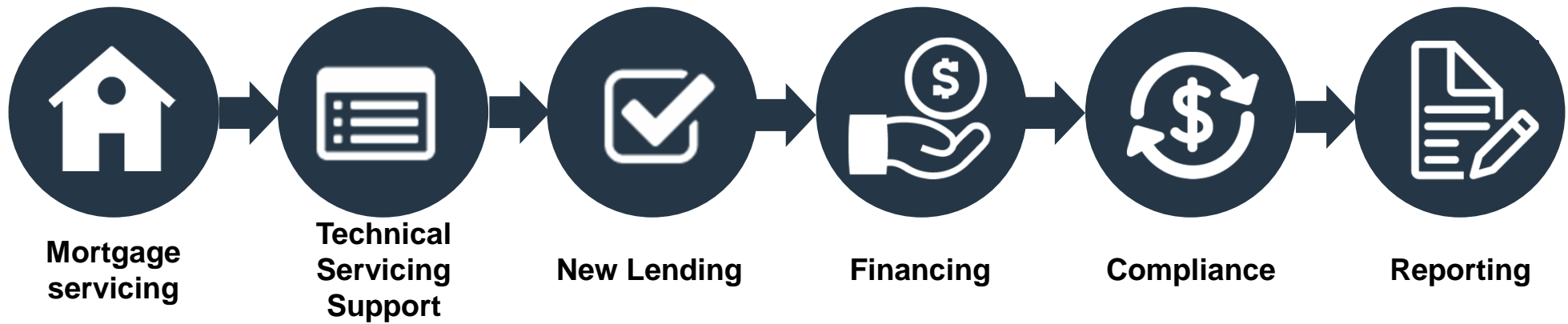


Source: Deloitte Deleveraging Europe 2015-2016 report – February 201

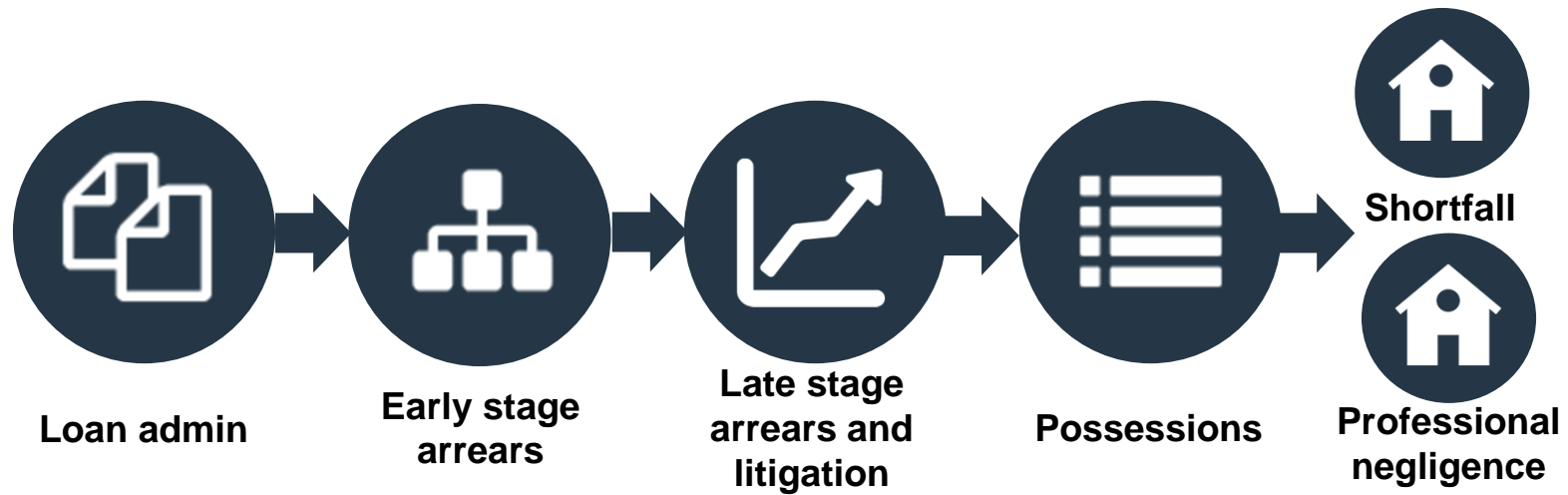
# Asset Servicing fundamentals



# Asset Servicing fundamentals – Primary servicing



# Asset Servicing fundamentals – Special servicing



# Servicing a strong CY15 contributor

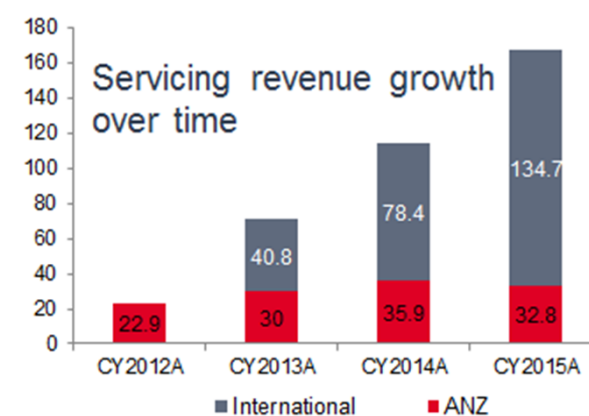
## Income up 46.5%

### International

- Boarded a record 20 new servicing portfolios in UK, Ireland and Spain.
- Strong annuity earnings from average AUM growth.

### Australia/New Zealand

- GE mortgage portfolio in run off mode.
- Excess capacity in third party servicing being redeployed to growth in new mortgage and auto lending in Australia.



# Outlook – momentum from CY15 set to continue

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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.

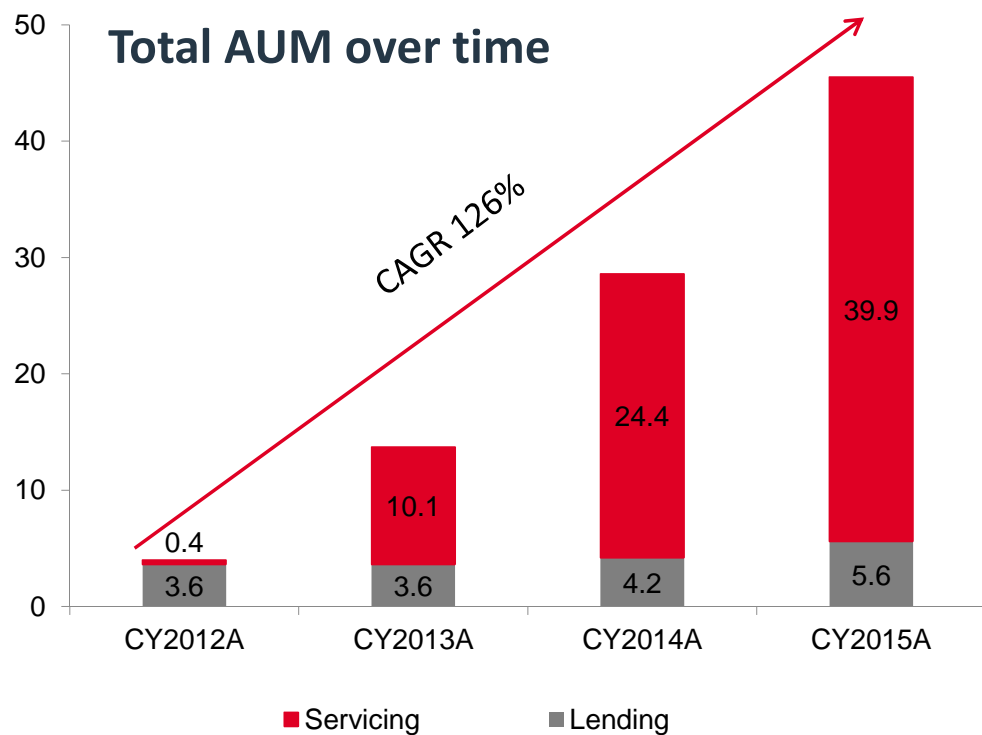
CY16 builds on CY15 momentum driven by:

- 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 earnings growth in South Korea driven by increasing consumer lending volumes and balance sheet scale
- Actively pursuing new partnership and platform opportunities in Europe

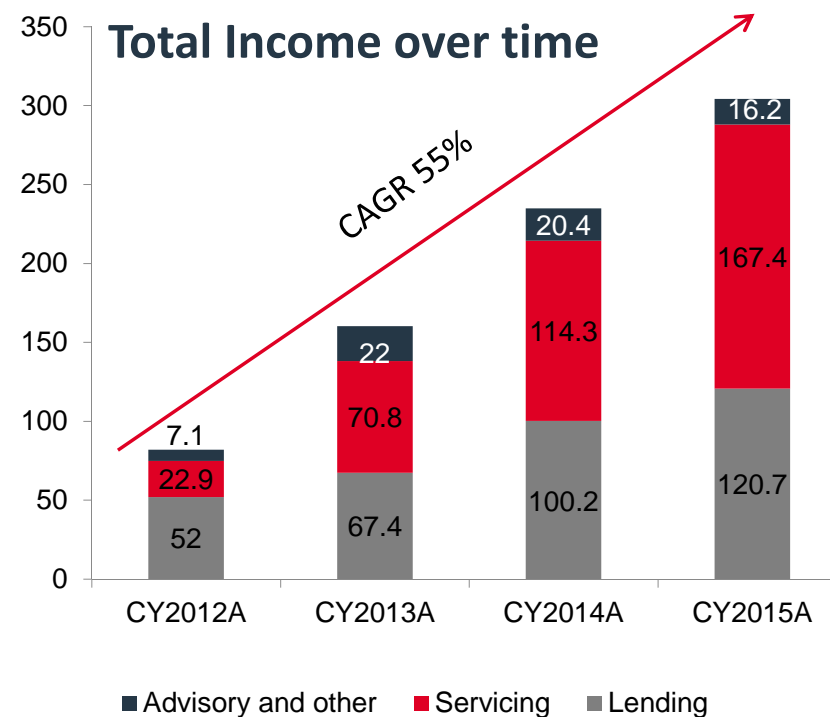


# Annexures

# Strong growth in CY15 supports Pepper's long term agenda

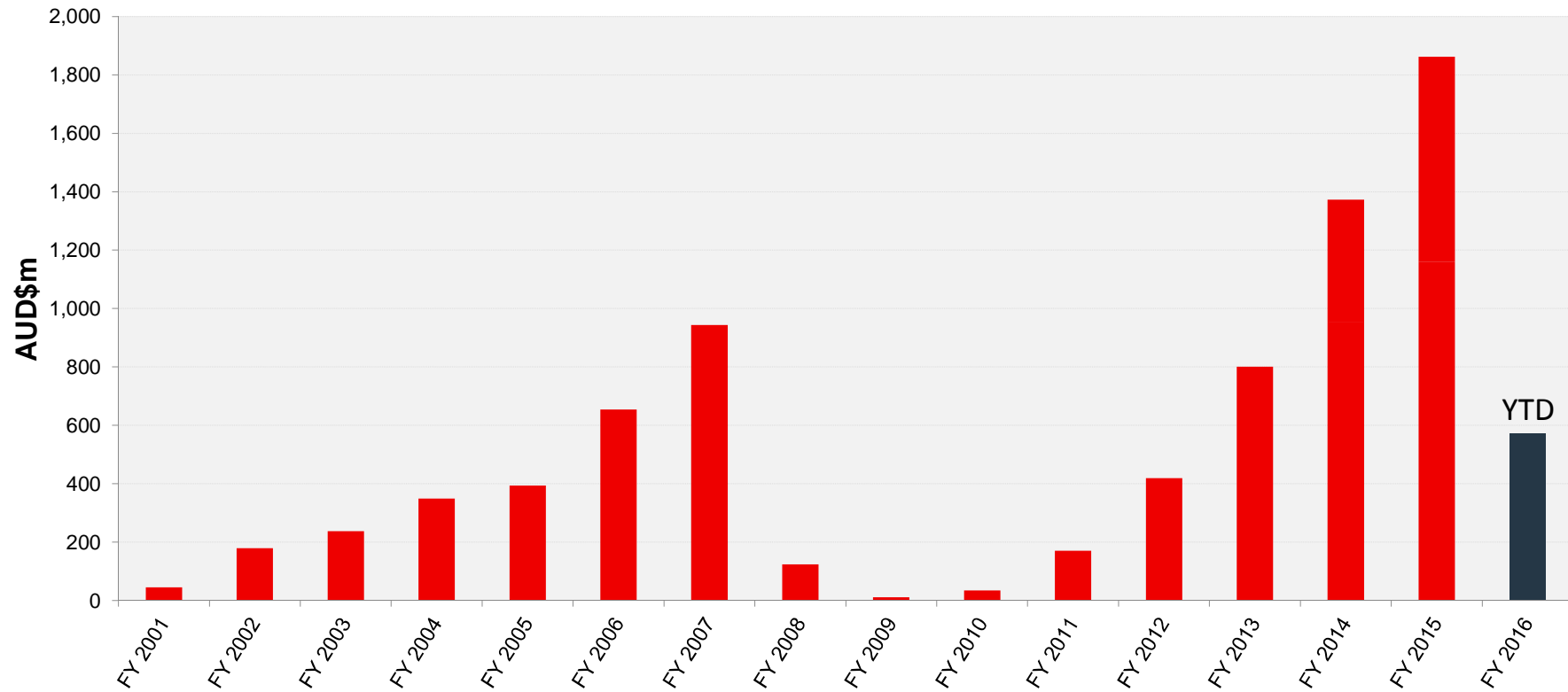


AUM ahead of prospectus forecasts by 10.3%

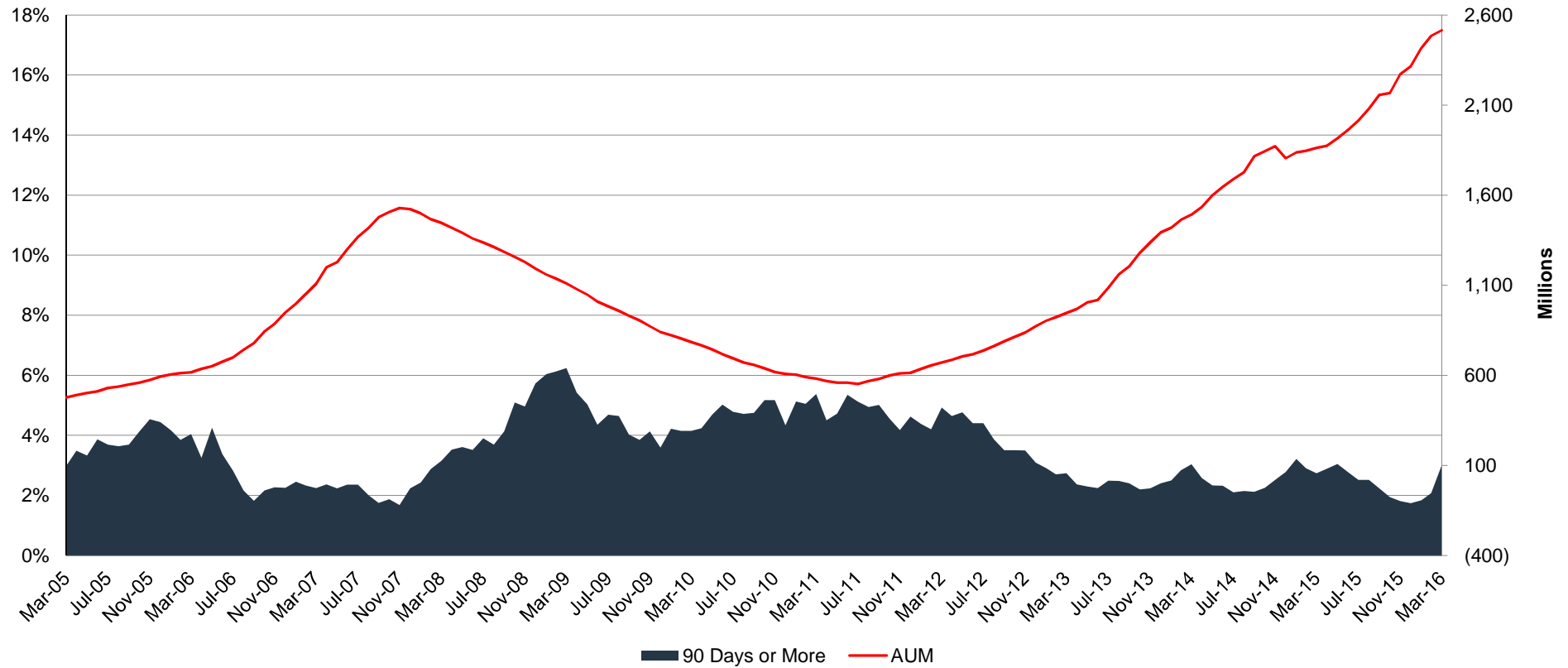


Income in line with prospectus forecasts

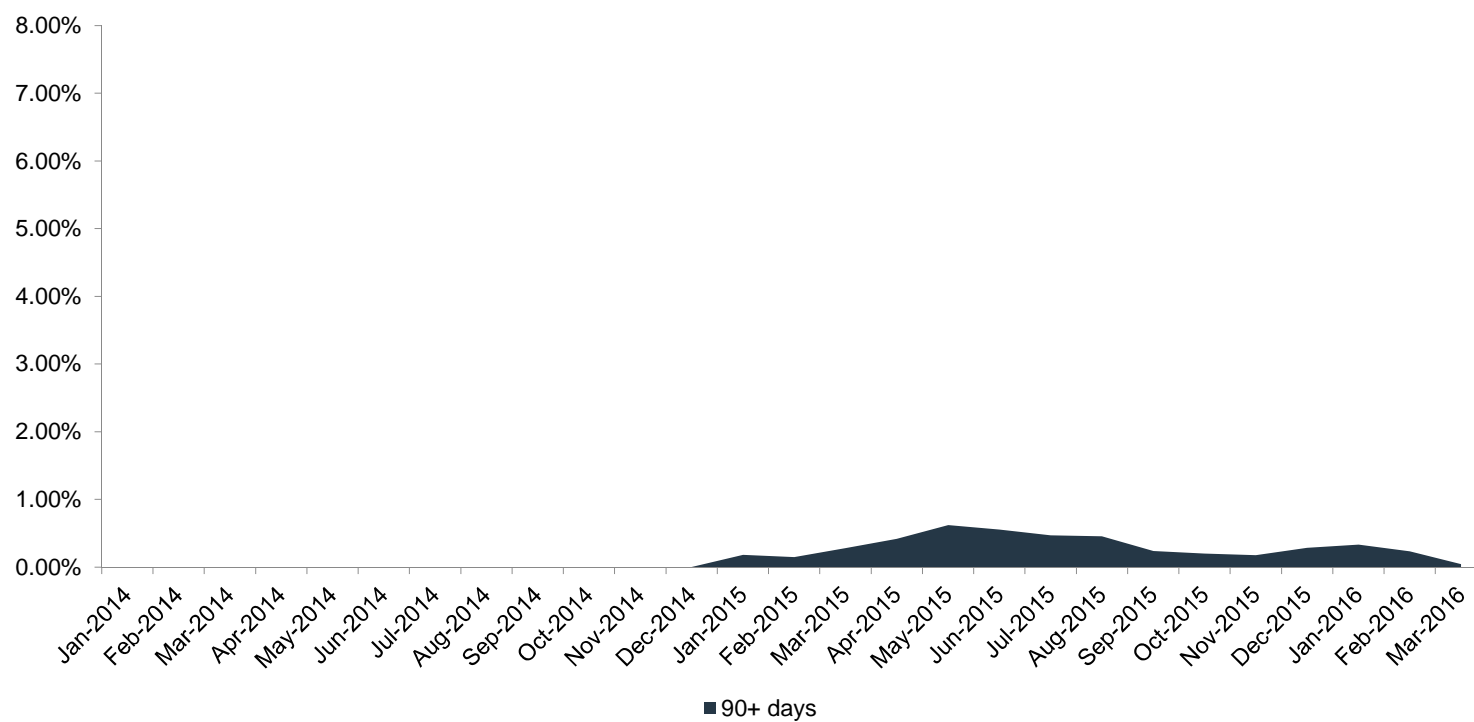
# Pepper Australia Mortgage Origination Volumes



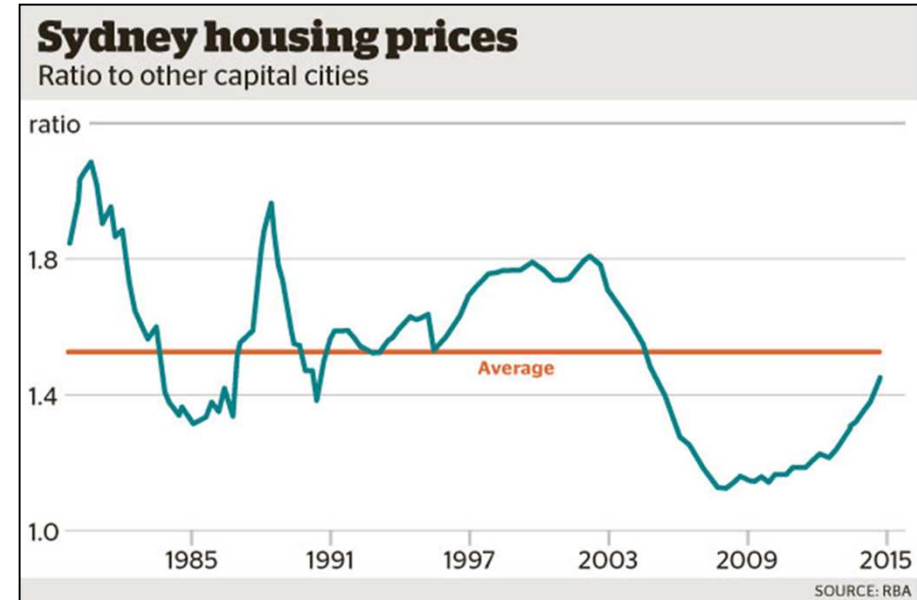
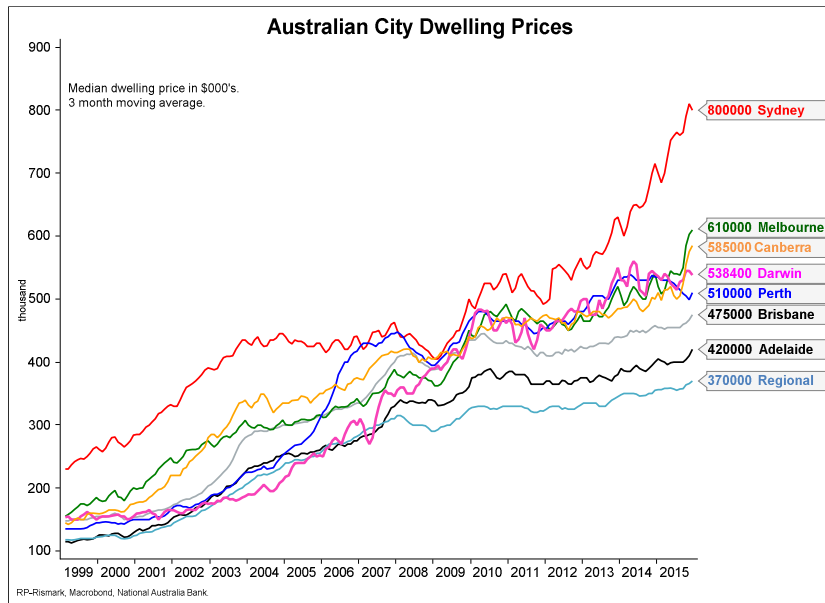
# Pepper Originated NC Arrears History



# Pepper Originated Prime Arrears History

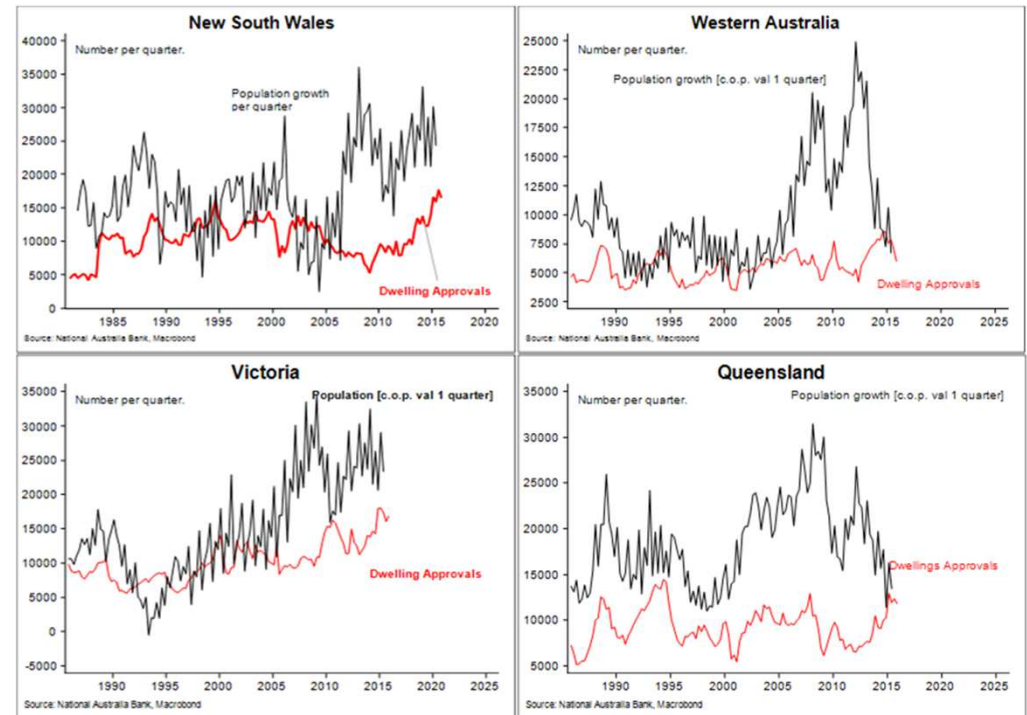
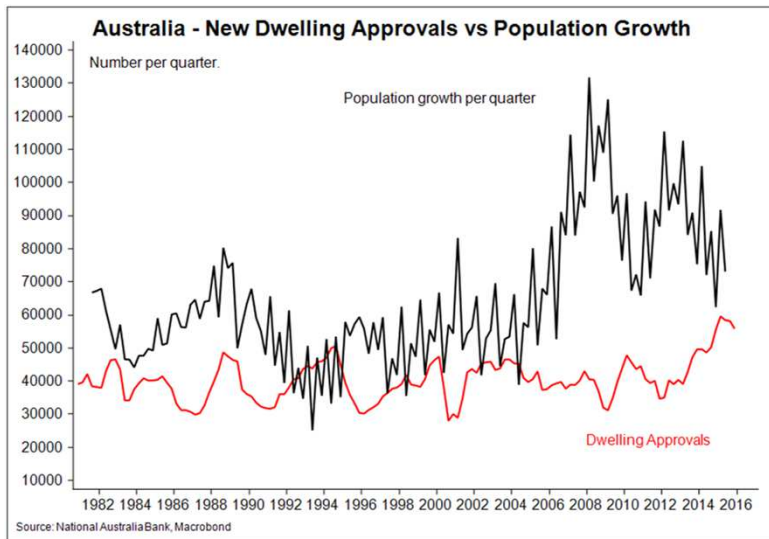


# Australian housing prices



- Sydney prices are up 75% per cent since 2009.
- But growth in the city's house prices was much softer than other cities for much of the 2000s.
- That game of catch-up is reflected in the (RHS) graph, which shows the ratio of Sydney homes to those in other cities was below-average for much of the decade.

# Housing – is there really an oversupply?



- Growth in home prices has been demand driven given housing market's slow response historically to low housing stock.
- However, national residential supply and demand are now nearing balance as population growth slows.
- Supply and demand are both increasing if excluding the mining states (WA and QLD).
- House prices increases in NSW, primarily Sydney, driven mostly by population growth.

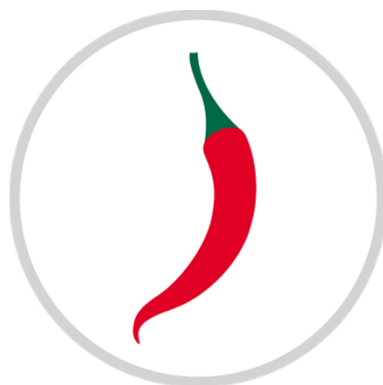
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