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Pepper reports 1H16 Adjusted NPAT of \$23.6m, up 41.3%¹ Company growing strongly with AUM up 44.0% to \$53.0 billion

Highlights

- Assets Under Management (AUM) of \$53.0 billion, up 44.0% on previous corresponding period (1H15: \$36.8 billion) and up 16.5% on CY15
- Total income of \$193.9 million, up 46.2% (1H15: \$132.6 million)
- 1H Adjusted NPAT of \$23.6 million, up 41.3% (1H15: \$16.7 million); Statutory NPAT of \$24.4 million (1H15: \$3.8 million)
- Fully franked interim dividend of 3 cents per share (cps) – record date 13 September 2016 and payment date 5 October 2016
- Strong growth in core Australian mortgage business underpinned by multi-channel distribution strategy
- Australian mortgage book profitability maintained via a combination of favourable YTD interest rate pricing adjustments, net of increased weighted average funding costs largely driven by more expensive public RMBS execution
- Strong growth in mortgage and consumer lending in South Korea
- Lloyds Banking Group contract delivering substantial servicing AUM growth in Ireland
- Continued investment and new business opportunities:
 - Joint venture with Banco Popular
 - Strengthened global lending brand with launch of Pepper Money

Pepper Group Limited (Pepper; ASX: PEP), a specialist residential mortgage and consumer lender and loan servicer, today announced its interim results for the six months ending 30 June 2016 (1H16).

Pepper reported 1H16 pro forma total income of \$193.9 million and statutory total income of \$326.0 million. Statutory income includes income from limited recourse warehouses and Special Purpose Vehicles (SPVs) but excludes associated funding costs.

Adjusted NPAT for 1H16 was \$23.6 million, up 41.3% (1H15: \$16.7 million), in line with management expectations and recent guidance. Statutory NPAT was \$24.4 million (1H15: \$3.8 million). As Pepper has previously flagged to the market, the company expects Adjusted NPAT to be weighted towards the second half reflecting:

- Continuing growth in residential and consumer lending books in Australia and other International markets, particularly South Korea
- The full impact of the Lloyds contract, with on-boarding now complete as 2H commences
- Other new servicing contracts on-boarded in 1H as well as promote fees (where applicable) typically being earned in 2H

¹ 1H15 Adjusted NPAT \$16.7m

Pepper's Co-Group Chief Executive, Mike Culhane, said the results demonstrated the company's commitment to delivering on its growth strategy.

"Pepper is a high growth, diversified, international financial services company," said Mr Culhane. "Since listing on the ASX a year ago, we've grown our AUM by over 40%. We have a strong culture of growth that drives continued investment in the long term fundamentals of this business and we're proud that we've been able to maintain that culture in the transition from a private company to an ASX listed company."

"During the first half, Pepper continued to experience strong demand in its core business lines including international servicing, consumer lending and residential mortgages, where we have achieved record originations in Australia and South Korea. Internationally, we've now established lending operations in all our current markets, leveraging servicing experience in each of those key geographies. This will drive future growth and revenue diversification."

Pepper has delivered a compound annual growth rate (CAGR) in AUM of 126% from 2012 to year end 2015. Over the same time horizon, Pepper's total income has delivered a CAGR of 55%.

Lending division performance

Lending AUM at the end of 1H16 was \$6.4 billion, up 42% on 1H15. Lending income for 1H16 was \$98.2 million, up 96% due to:

- Continued strong organic growth in Australian residential mortgages, with greater distribution reach driving record originations of \$1.2 billion, up 77% year to date
- Strong growth in auto finance originations
- The launch of Pepper Money – one single consumer facing brand across all markets.
 - Designed to support Pepper's expansion in the direct-to-consumer channel, reflecting its broader range of residential and consumer finance products
- A growing offshore loan book, supported by:
 - Strong lending performance in Korea
 - Pepper's entry into the UK and Irish mortgage markets with the launch of a suite of new mortgage products
 - An increased contribution from Pepper's acquisition of Prime Credit based in Hong Kong and China

Servicing division performance

At the end of 1H16, Pepper had servicing AUM of \$46.6 billion, up 44% on 1H15. Servicing income was \$89.7 million, up 18% due to:

- Strong organic growth from existing client base
- On-boarding of the \$8.3 billion Lloyds Banking Group Contract
- Increased trend to outsourcing mortgage services in the UK, particularly with the emergence of challenger brands
- Whole loan sales with servicing retained increasing portfolio size and revenue in Australia

Pepper continues to maintain credit exposure discipline, having ceased lending in large mining areas more than 18 months ago and regularly monitoring housing market valuations by post code. With 90 day + arrears

falling to 1.36% as at 30 June 2016, Pepper's mortgage lending book continues to perform through the cycle as a result of focused underwriting, appropriate risk-based pricing, and responsible loan collection practices.

As a result, Pepper's annualised cumulative losses from domestic mortgage lending remain around 10 basis points, well within management's long-run expectations.

Pepper's Co-Group Chief Executive, Patrick Tuttle, said: *"Pepper has benefited from strong lending growth during the year, underscored by the strength of our domestic brand and expansive product offering. We continue to invest in our broker network and our direct-to-consumer offering to great success, positioning Pepper as a broad-based residential and consumer finance company."*

He added *"We have maintained the underlying profitability of our core Australian mortgage lending business through a combination of positive year-to-date interest rate pricing adjustments, offset by the weighted average increase in our Australian RMBS funding costs prevalent since Q4 2015. In doing so, we have also been able to successfully complete nearly 70% of our CY2016 wholesale funding task, leaving only one further Pepper RMBS transaction to be completed prior to year-end"*.

Joint Venture with Banco Popular

At the end of 1H16, Pepper announced it had reached a 50/50 joint venture (JV) agreement with Spain's 6th largest banking group Banco Popular. The JV will give Pepper access to Banco Popular's database of 2 million customers and its network of more than 1,600 branches. Using Pepper's proven point of sale technology, the JV will create a consumer finance powerhouse in Spain and target growth into Europe, Asia and the Americas. As at 31 December 2015, the JV had a combined loan book of \$404 million.

Banco Popular has also agreed to acquire 5% of primary shares issued by Pepper on close of the transaction as well as committing to a \$100 million equity line that will be available to Pepper for 5 years subject to certain terms and conditions.

Tuttle continued "We continue to expand our lending business globally in residential mortgages and consumer lending. Our partnership with Banco Popular will provide an excellent platform for scale and growth in Spain and beyond. This JV also demonstrates the embedded value Pepper is seeking to create in all its international platforms."

Financial position

Pepper's diversified funding sources provide the company with stability and continue to support strong lending growth. Pepper has a variety of long term funding partners and is a repeat issuer in the term securitisation markets in Australia. During 1H16, Pepper successfully:

- Completed two whole loan sale transactions in Australia each comprising a portfolio of \$400 million of residential mortgage loans
- Priced its \$700 million Pepper Residential Securities Trust No.16 (PRS16) transaction – the largest nonconforming Residential Mortgage-Backed Securities (RMBS) deal in Pepper's history, and the largest nonconforming mortgage securitisation in the Australian market since 2006

At 30 June 2016, Pepper had free cash on the balance sheet of \$36 million and pro forma net assets of \$424 million.

Outlook

At the commencement of 2H16, Pepper has continued to experience:

- Record origination growth in Australian residential mortgages and auto lending
- Continuing lending growth in South Korea
- An increased contribution from the Lloyds Banking Group servicing contract win

Pepper Group reconfirms its CY16 guidance, with management expecting to report at least an Adjusted NPAT of \$59 million. This guidance excludes the expected gain from the Spanish JV announced on 29 July 2016.

ENDS

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