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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

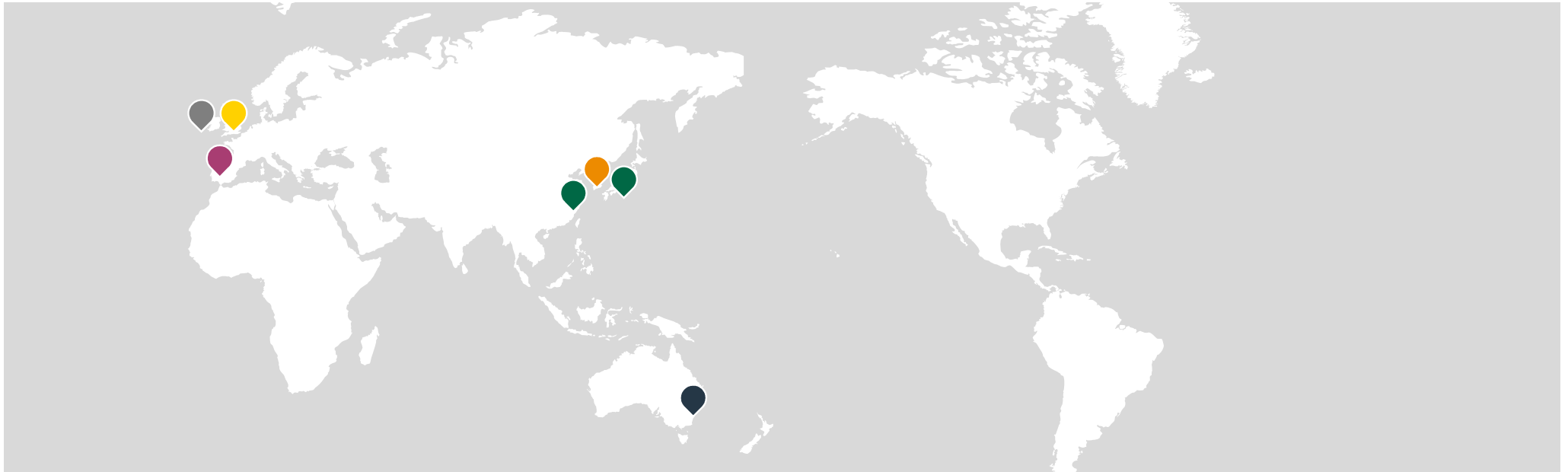


Asset Servicing

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
3rd Party Asset Servicing

UK

Residential Mortgages
3rd Party Asset Servicing

Spain

Point of Sale Finance
Personal L
3rd 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^{1,2}


















\$44.4bn

CY15
pro forma
Income

\$304.3m

CY15
Adjusted
NPAT

\$48.6m

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

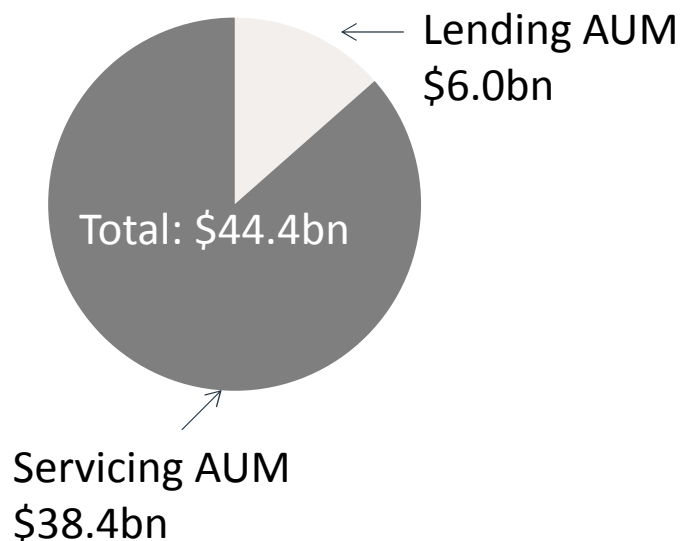
Continuing investment in new business opportunities

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 2nd quarter

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

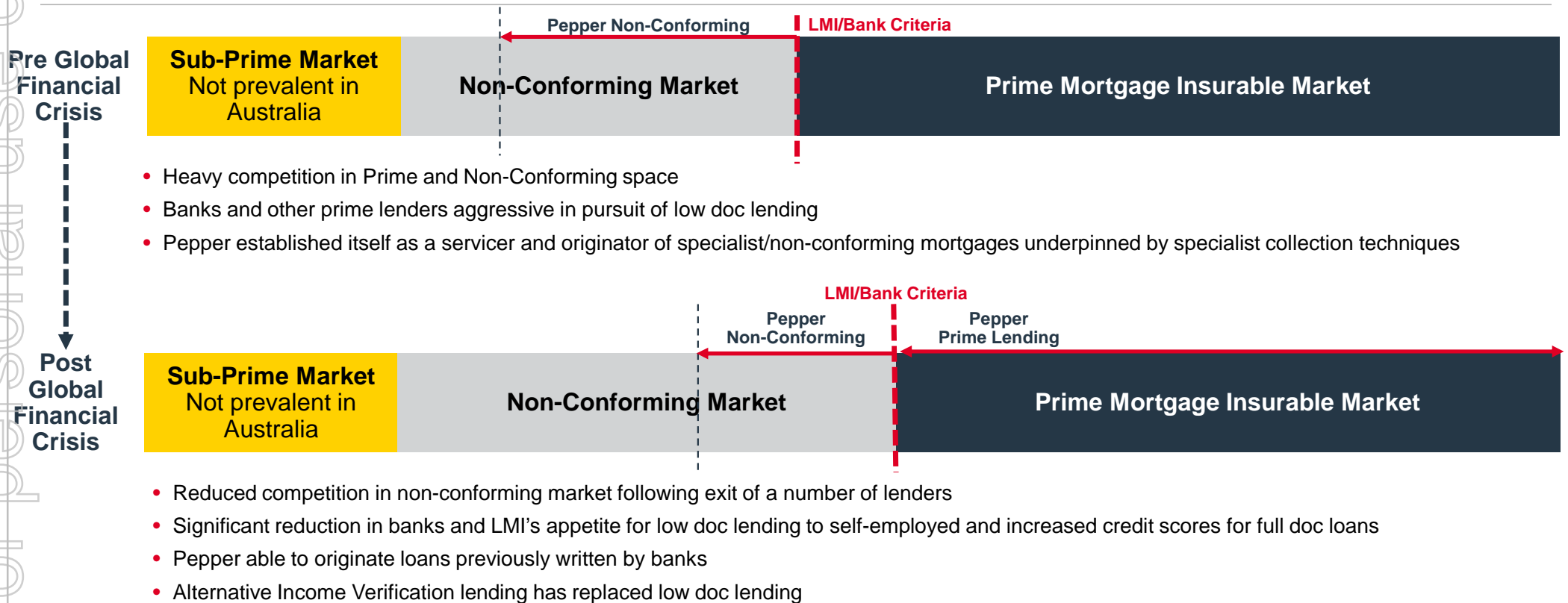
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Lending Fundamentals

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	NEAR PRIME	NON CONFORMING
Customers who qualify for a loan product from a major bank	Customers who fail to qualify for a major bank product due to minor issues	Customers who have suffered a life event resulting in an adverse credit file
<ul style="list-style-type: none">• No credit impairment• No LMI, self-insured• Fast turnaround, higher than bank NIM	<ul style="list-style-type: none">• Fail automated credit scoring models• Consolidation of multiple consumer debts• Irregular savings and employment history	<ul style="list-style-type: none">• Illness or medical condition• Marital separation or divorce• Short term unemployment
<ul style="list-style-type: none">• Full doc• Alternative Doc• PAYG• Self-employed• Purchases• Re-finances• Investors• Homeowners	<ul style="list-style-type: none">• Full doc• Alternative Doc• PAYG• Self-employed• Purchases• Re-finances• Investors• Homeowners	<ul style="list-style-type: none">• 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 2011

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

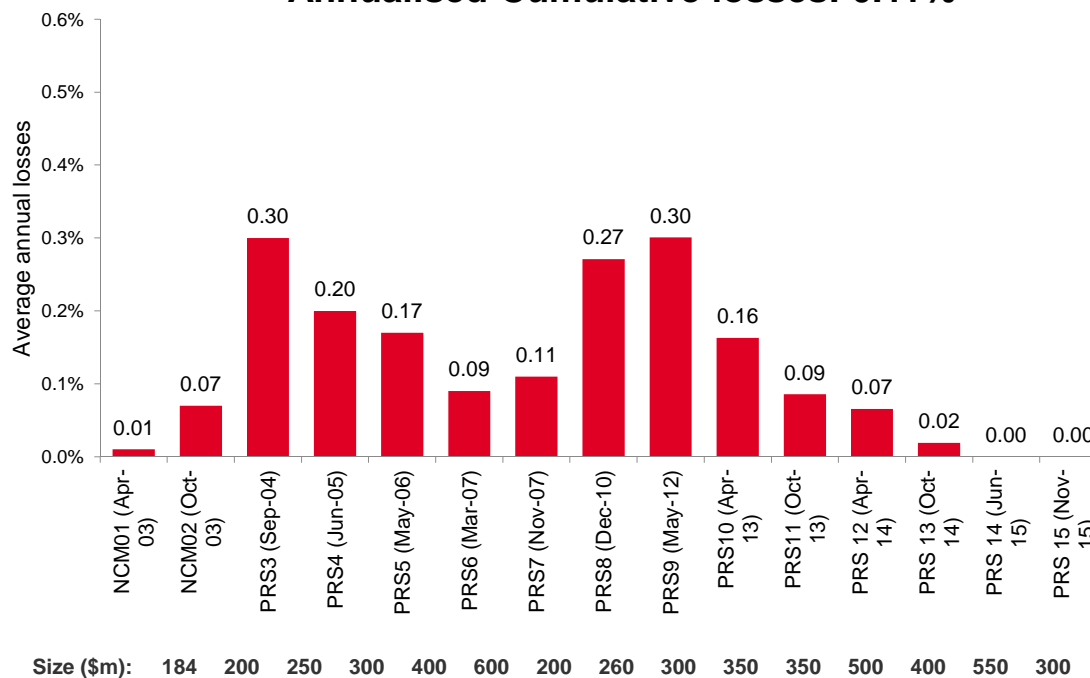
Underwriting and risk selection criteria

- 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

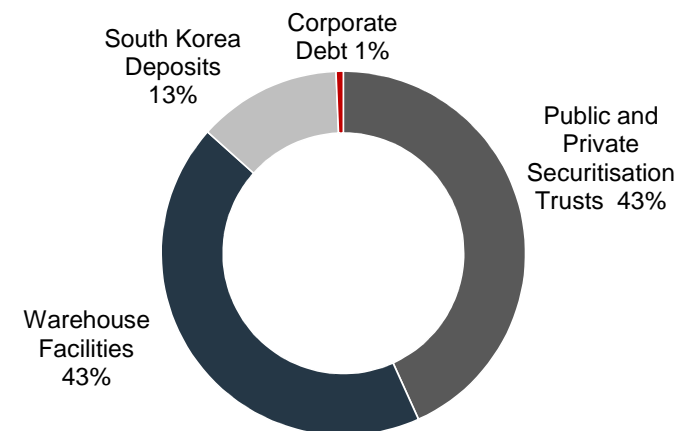
	Weighted Average Current LVR
Pepper originated	72.15%
Pepper acquired	64.86%
Total active portfolio	70.46%

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

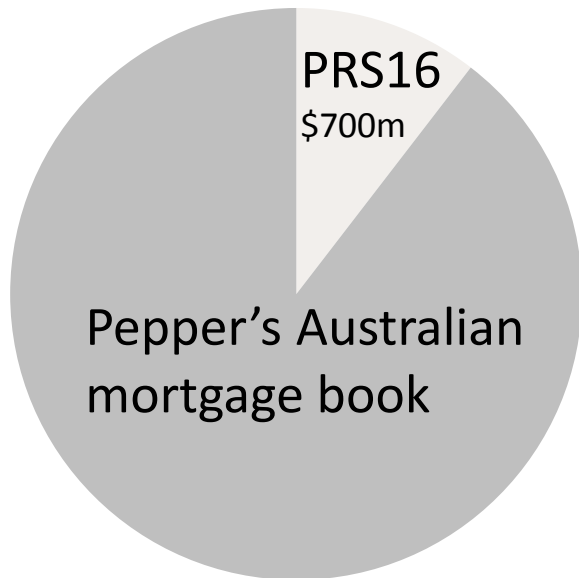
Adequate headroom is maintained across all warehouses commensurate with current lending run rates

* Excluding South Korea as it is deposit funded

Funding – Business as Usual

- 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

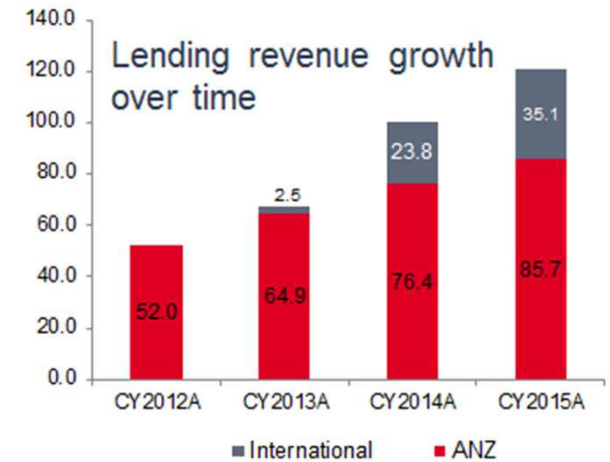
Income up 20.5%

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

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

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Asset Servicing Fundamentals

Mike Culhane – Co Group CEO



Current servicing pipeline throughout Europe



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.



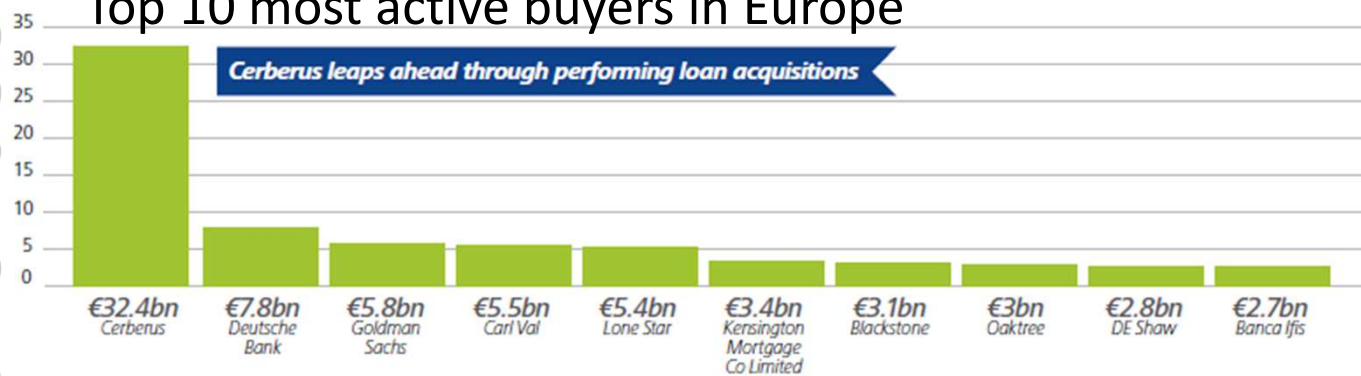
United Kingdom

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

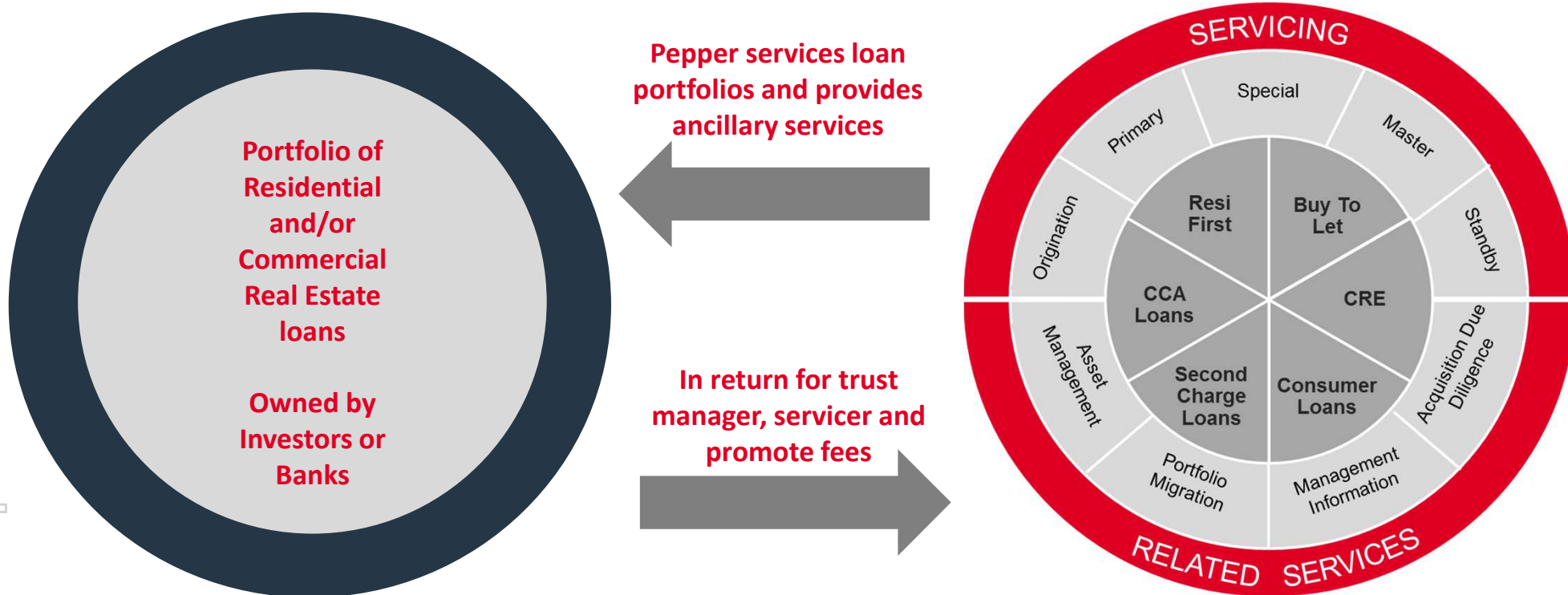


Top 10 most active sellers in Europe



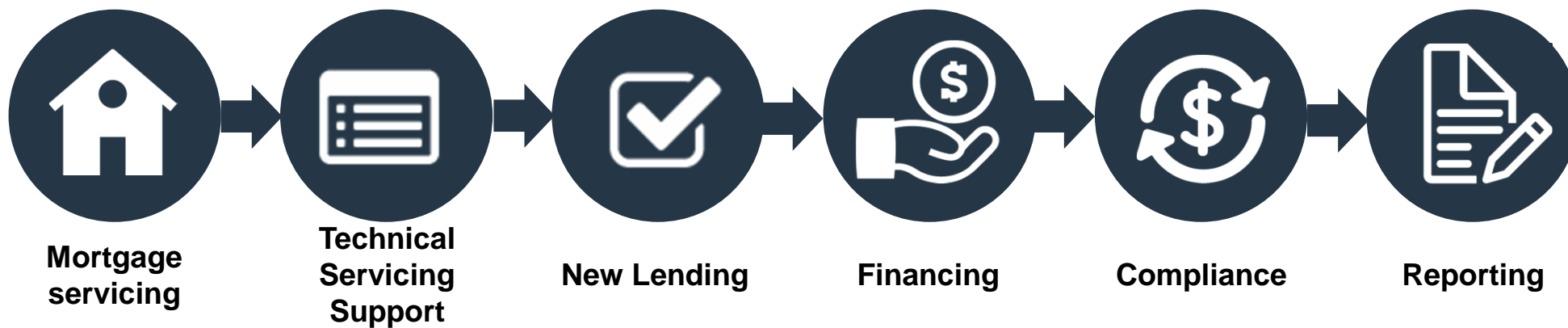
Source: Deloitte Deleveraging Europe 2015-2016 report – February 201

Asset Servicing fundamentals

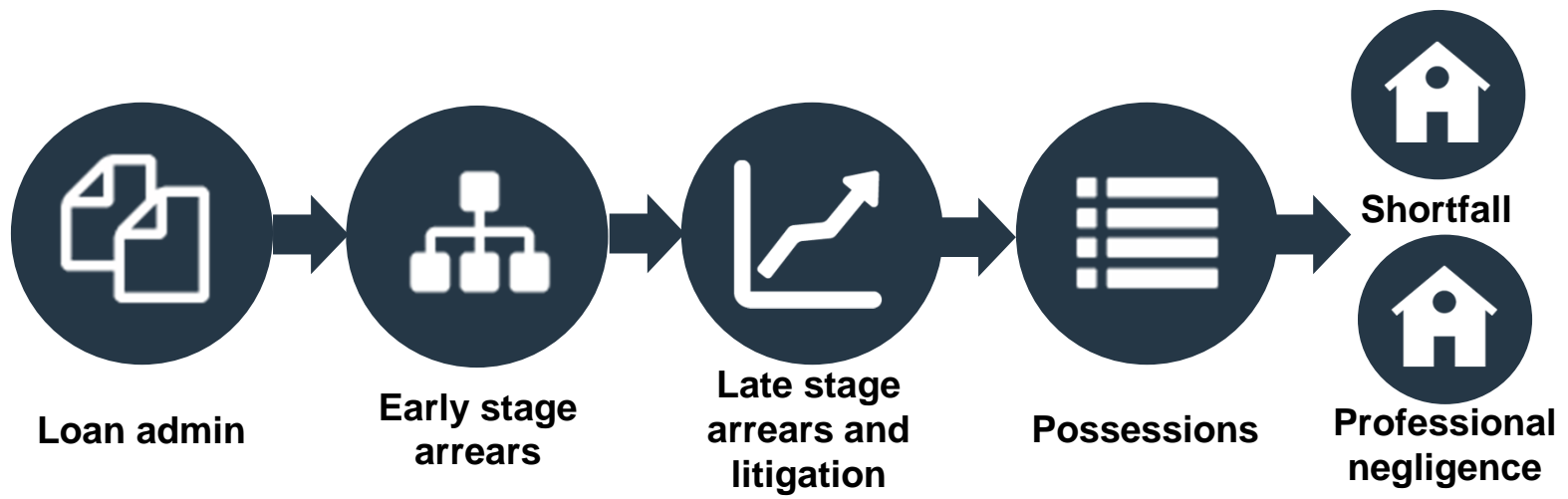


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Asset Servicing fundamentals – Primary servicing



Asset Servicing fundamentals – Special servicing



Servicing a strong CY15 contributor

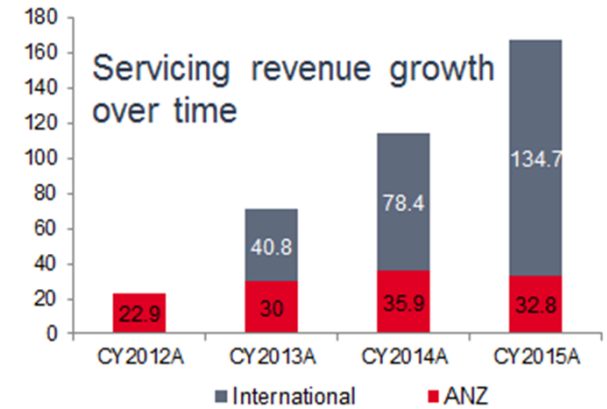
Income up 46.5%

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

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:

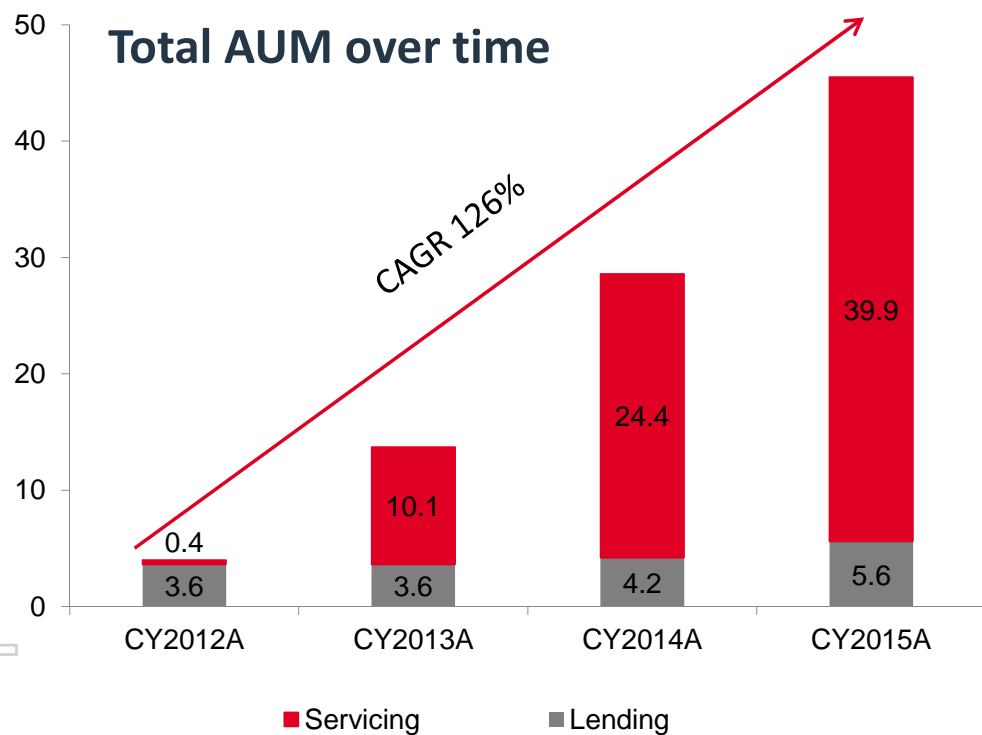
- Australian monthly loan completions running at record levels in the mortgage segment and growing quickly in the PAF business segment
- European servicing AUM and NPAT growth as portfolios boarded last year benefit from the full year effect as well as portfolios won last year that will be boarded in 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

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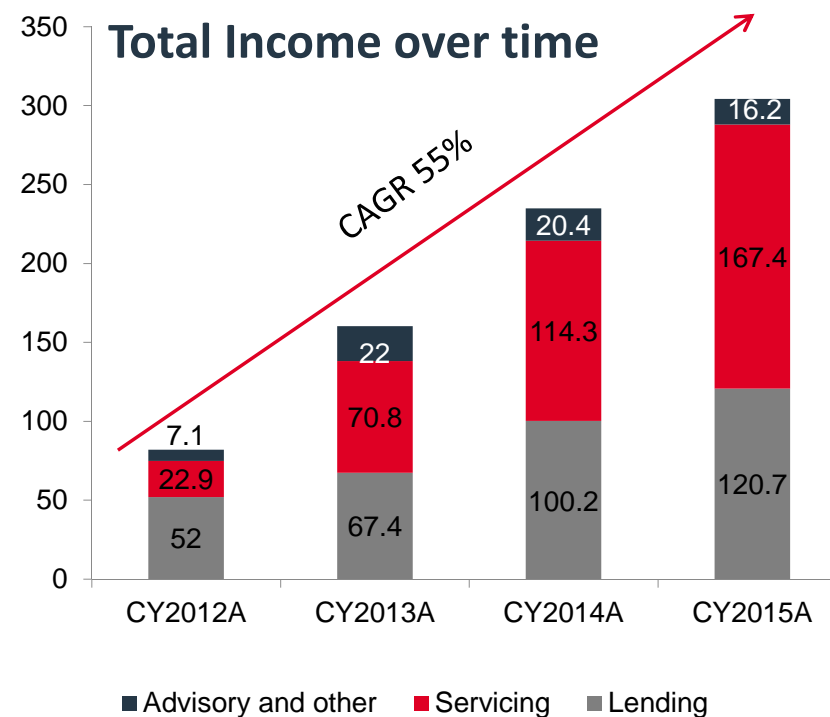
Annexures



Strong growth in CY15 supports Pepper's long term agenda

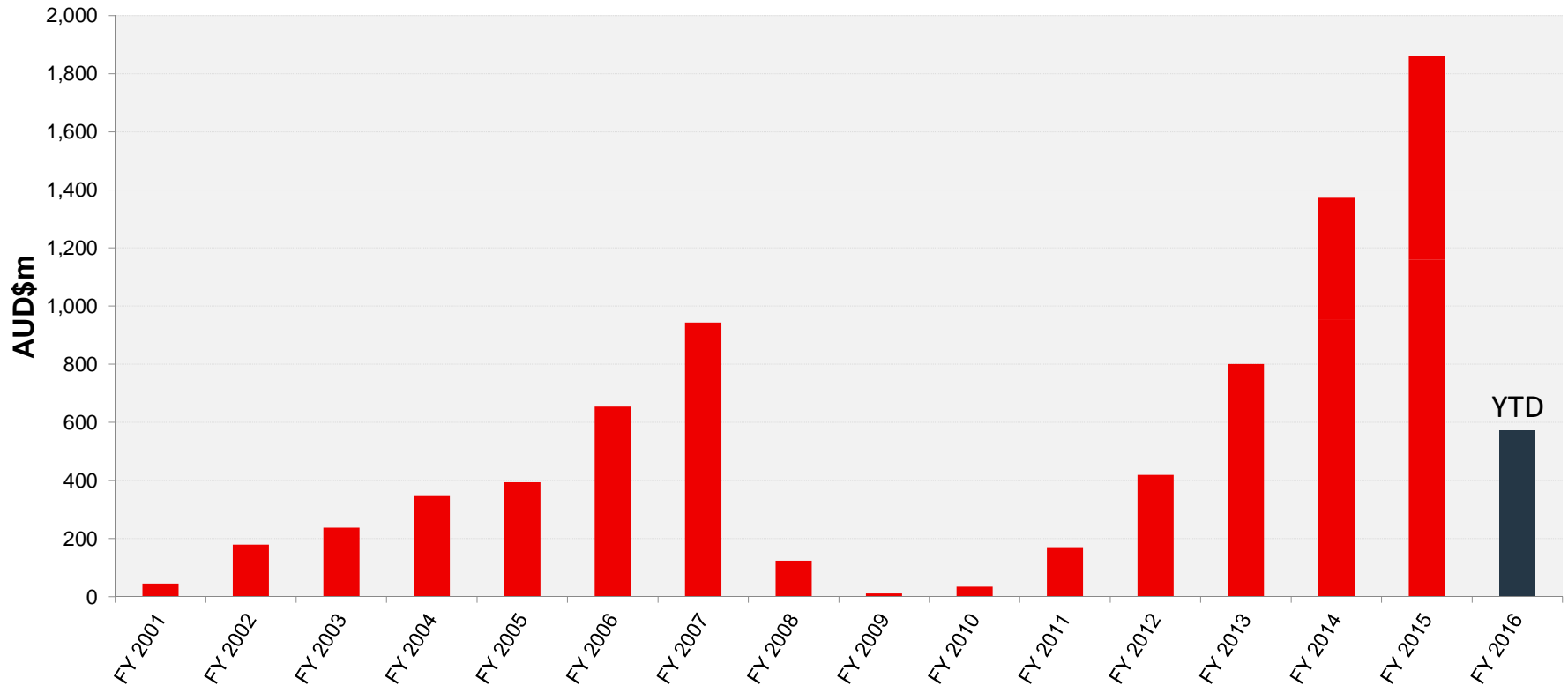


AUM ahead of prospectus forecasts by 10.3%



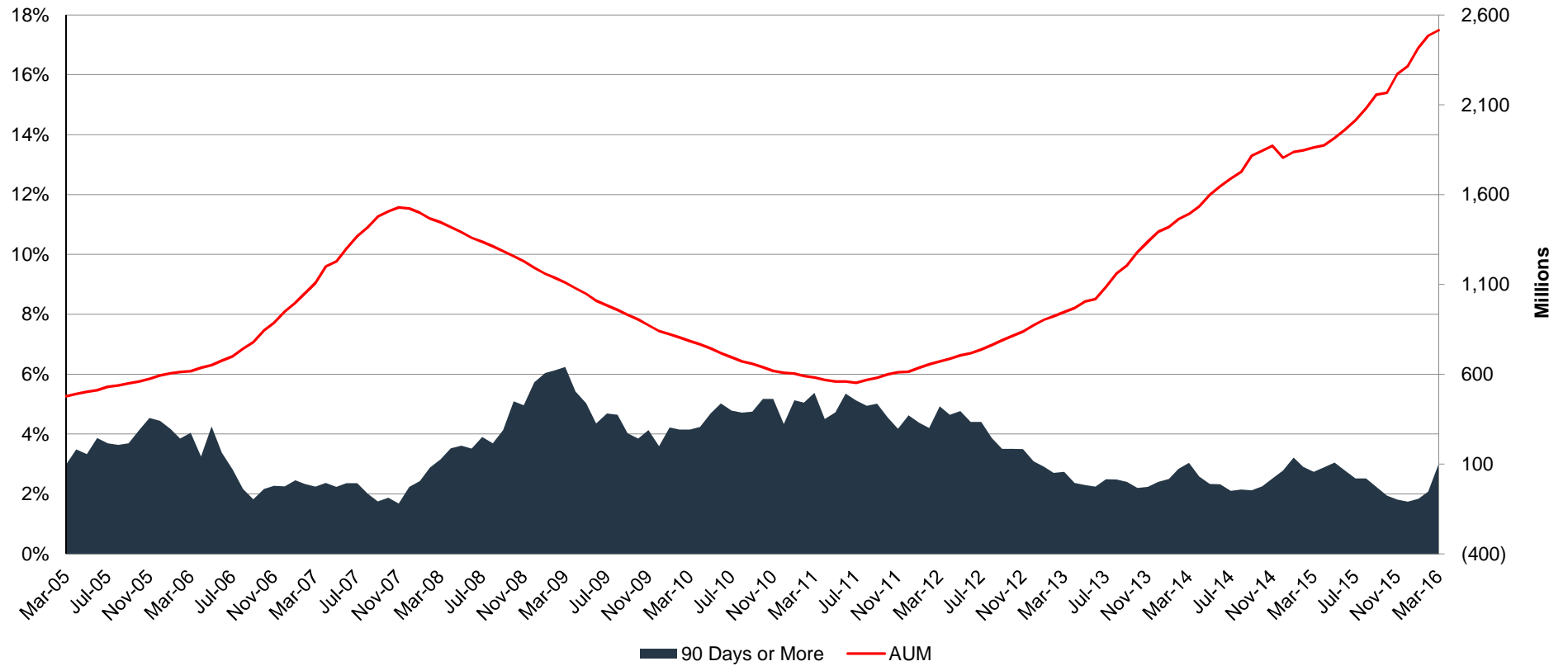
Income in line with prospectus forecasts

Pepper Australia Mortgage Origination Volumes



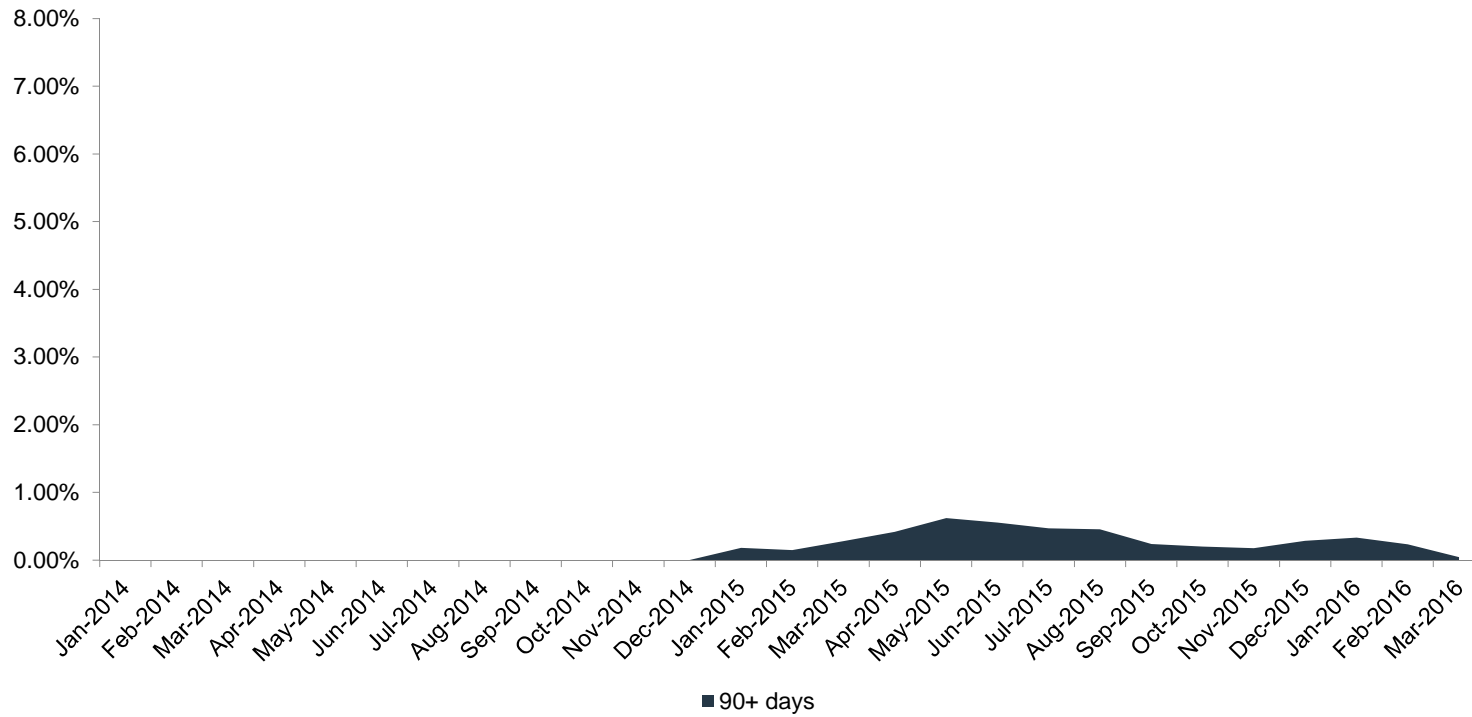
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Pepper Originated NC Arrears History

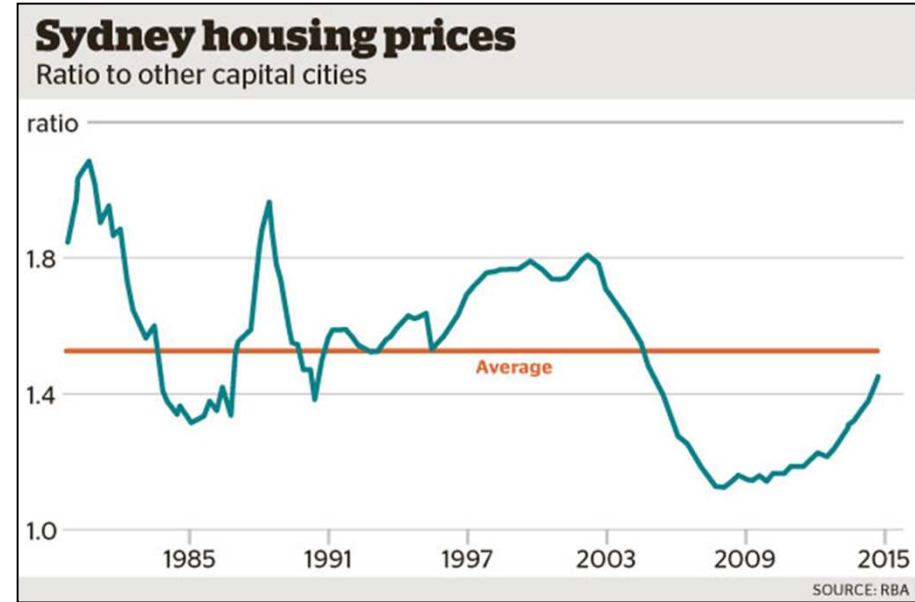
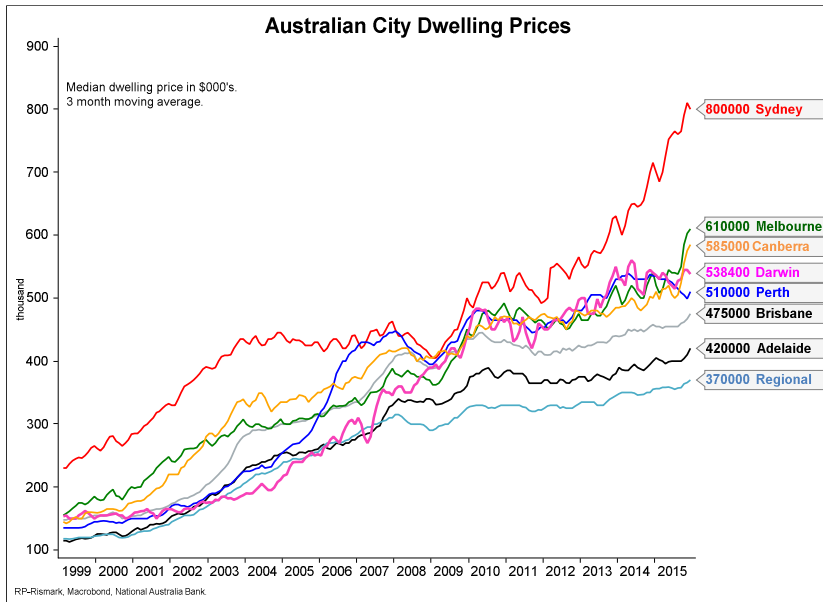


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Pepper Originated Prime Arrears History

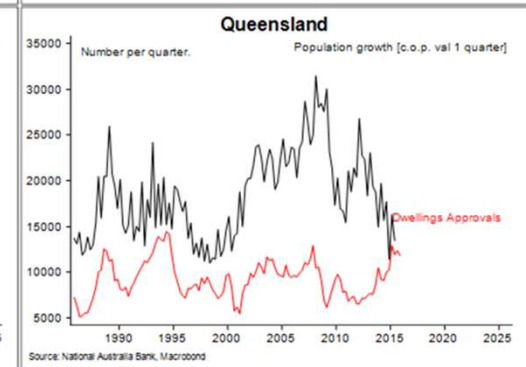
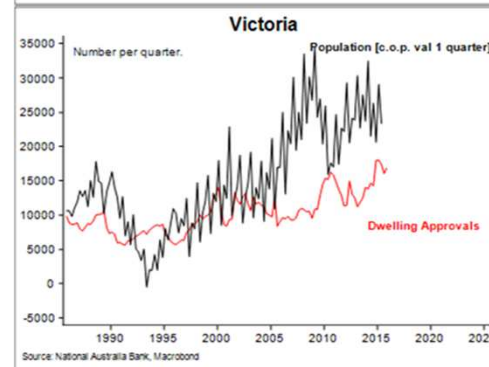
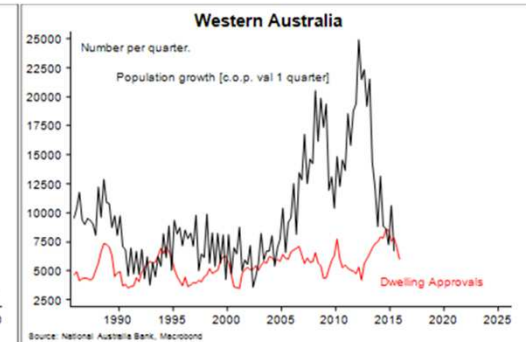
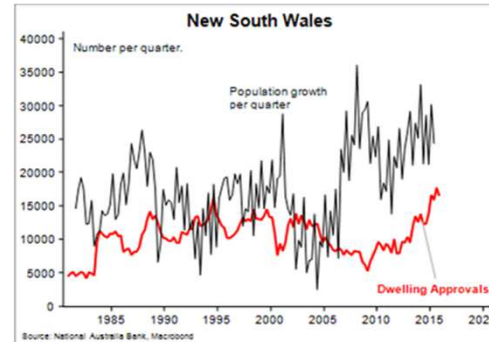
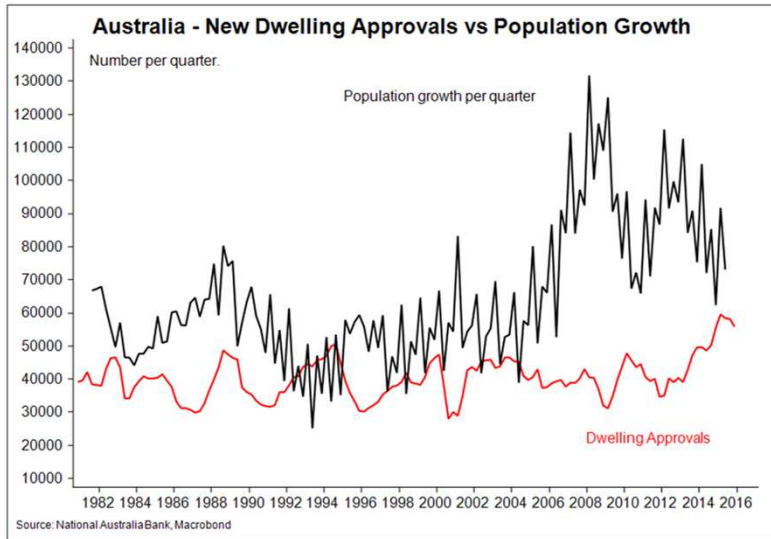


Australian housing prices



- 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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