Pepper Money Limited

CY2022 Results Presentation Script

Thursday 23 February 2023

S L I D E   N U M B E R   2

Good morning, everyone and welcome to Pepper Money Limited's CY2022 financial results presentation. My name is Gordon Livingstone - Investor Relations at Pepper Money.

I would like to begin by acknowledging the traditional custodians of the land on which we meet today, the Gadigal people of the Eora Nation. We pay our respects to each of their Elders, past, present, and emerging.

Following a business update from Pepper Money's CEO - Mario Rehayem - Pepper's CFO - Therese McGrath - will walk us through the financials. After some closing remarks by Mario - there will be an opportunity to ask questions, which can be either via phone, or submitted via the portal.

I will now pass over to Mario.

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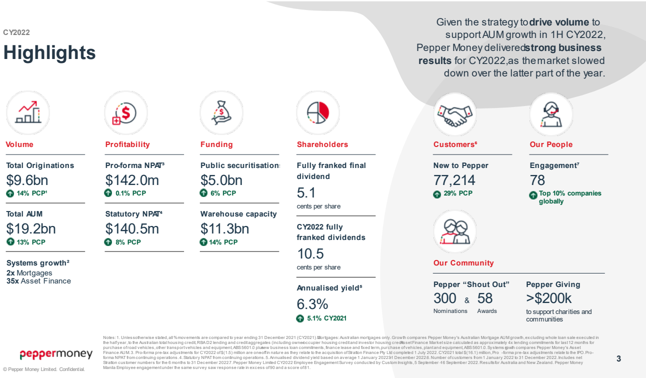

Thanks Gordon

- On behalf of my entire team at Pepper Money, I would like to thank everyone who has joined us today. Therese and I are proud to present Pepper Money's full year results for CY2022. Our performance yet again demonstrates the ongoing ability of Pepper Money to respond to any market conditions.
- We entered into 2022 with a strong focus on driving volume to support AUM growth, as we expected the macro-economic condition and interest rate increases would see the market slow down over second half of the year.
- As we reported in the first half of 2022 we delivered above systems growth – growing originations by 53% on the first six months of 2021 – and closing the first half of 2022 at $5.6 billion in total
- It was this strategy – to deliver a fast start in the first half – that supported the business when markets softened materially in 2nd half of 2022. While both Mortgages and Asset Finance Originations in the 2nd half slowed to $2.7 billion and $1.3 billion respectively, we closed CY2022 with record Originations of $9.6 billion – a growth of 14% on PCP.
- This meant for the full year, we outpaced the system:
  - with Mortgages in Australia growing 2.0 times system ;

    and
  - Asset Finance continuing at pace – growing 35 times system over the same period.
- Our strategy to drive volume in the first half to secure our exit AUM, saw us close the year with Lending AUM up 15% on PCP to $18.2 billion:
  - Mortgages increased +10% versus PCP to $13.5 billion and
  - Asset Finance increased +35% versus 2021 to a record $4.7 billion.

- Pepper Money's strong track record in accessing debt capital markets and the strength of our long-standing funder and investor relationships developed over the past two decades, really shows through when market conditions are challenging – which was what was seen in 2022:
    - we welcomed 4 new investors
    - we increased our warehouse capacity to $11.3 billion, up 14% on December 2021.
    - we successfully executed 7 public securitisations over the year - raising more than $5 billion in total.
    - we also raised $1.8 billion through private term deals

      and

    - we have come out of the gates strong in 2023 – with our first public securitisation for the year settling tomorrow– PRS 35 - a non-conforming deal of $1 billion, which we upsized from $500 million, given the strength of demand.
- Before turning to profit and returns - I would just like to highlight the work we do, in supporting our customers, our people and the communities in which we operate.
- Our people continue to be highly engaged – again in 2022 our Employee Engagement Results placed us in the top 10% of companies globally. And this is not just a few employees – our response rates are in excess of 90%. Our people called out "Trust" and "Diversity of Ideas" as two of the key reasons they remain so highly engaged. We invest in our people through leadership development, annual pay parity reviews, engagement surveys, and access to other development opportunities through our partnerships.
- Pepper Giving – is an initiative run by employees, through the Pepper Money Giving Committee – to provide support to key causes such as domestic violence and child education. And it is not just monetary support given – we have an active employee volunteering program where teams of employees commit their time and skills to help the causes we support, such as the Women's and Girls Emergency Centre at Burwood and the Chris O'Brien Lifehouse at Camperdown.
- So, in terms of profitability:
    - while our volume growth was strong,
    - and we implemented front and back book price increases following the Reserve Bank of Australia increases to the official cash rate,
    - NIM continued to experience compression as
    - the lag between BBSW increasing in advance of RBA rate rises and the delay associated to passing on the rates to customers coupled with

  - the impact of increased cost of funds as funding spreads widened
  - this meant that Total Operating Income grew 9% to $408.2m.
- As we consolidated the Stratton business from 1 July 2022, factoring in 6 months of operating expenses, overall costs increased at a higher rate
- Our Pro forma NPAT for the year closed at $142 million was marginally ahead of the record profit we delivered in CY2021.
- Statutory Profit for 2022 grew 8% to $140.5 million.
- And for our shareholders, the Board has declared a final fully franked dividend of 5.1 cents per share bringing total fully franked dividends in respect of 2022 to 10.5 cents per share, up from 9 cents per share in 2021 and delivering an annualised yield of 6.3%.

SLIDE NUMBER 4

- As I am sure you have heard me say, at Pepper Money our mission is simple – it's to help people succeed.
- We focus on creating financial inclusion, by challenging the way loans are designed and distributed.
- Our values provide the guide to how we do business and how we interact with our customers, stakeholders, and each other, and
- the core competencies of the business - credit, funding, distribution, and technology - are all supported by over 22 years of data and through the cycle experience that allows the business to know when to drive volume, when to flex to the margin and how to price for risk.
- It is the strength of our mission, values and core competencies that really come to the forefront when faced with the headwinds of market conditions we endured in 2022, and we saw the business navigate the challenges to deliver such strong results.

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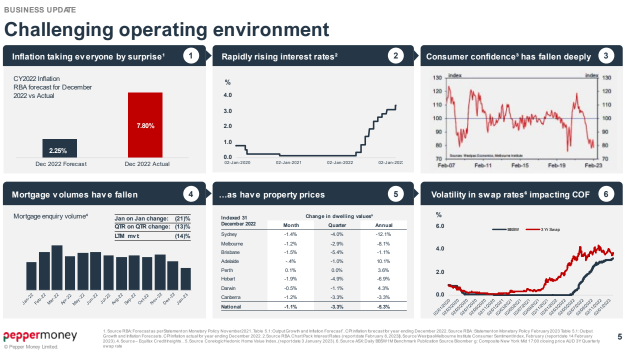

- Before delving into the operational, business, and financial performance, I think it is important to look at the market challenges experienced, which we do believe we will continue in the short term at least.
- Australia, like most developed countries around the global, saw interest rates rise, with pace over 2022. From May to December the RBA implemented 8 consecutive increases moving the OCR from 10bps to 310bps. February has seen a further rise of 25bps
- As it takes around 3 months for a rate rise to start to have an impact on customer discretionary income, this means it is only now that the flow on from the November and December rises start to be felt.
- Alongside the pressure customers have come under from the rising rate environment, the impact of inflation on household disposable income has also really started to be felt
- Unsurprisingly these factors have helped drive a significant deterioration in consumer confidence
- The high – and increasing – interest rate environment coupled with further rate rises unsurprisingly has helped to contribute to a marked reduction in mortgage volumes – as seen through Equifax Mortgage enquiry tracking, which has seen volumes drop circa 14% over the last 12 months and 21% in January 2023 vs January 2022 alone.
- And as published – property prices have also weakened, coming off 5% for the year to December.
- The final chart shows the pressure funding costs came under – the sharp and persistent increase in BBSW and swap rates, drove the largest component on NIM compression
- This was our operating environment for 2022

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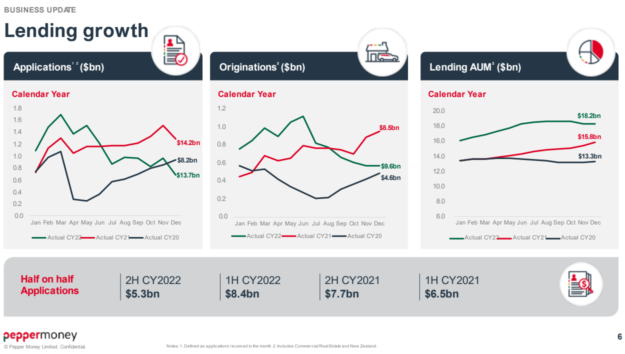

So, how has this impacted our business:

- We entered 2022 prepared for rising rate environment and expected volatile debt markets alongside, macroeconomic and geopolitical uncertainty and funding constraints.
- Against this backdrop we accelerated opportunities to grow our loan books and delivered record originations of $5.6 billion in the first half, up 53% on first half 2021.
- As interest rates started to rise, and funding cost volatility emerged we took a view to slow down new applications:
    - In 2022, Q3 vs Q2 Mortgages applications declined 39%;
    - And while Q4 on Q3 declined further by 24%, the rate of decline had started to taper.
    - And the full year applications for Mortgages were down 16% on CY2021
- Asset Finance market corrected more quickly:
    - Q3 vs Q2 applications declined 13%;
    - But returned to growth in Q4, growing 10% on Q3 ;
    - And the full year applications for Asset Finance closed +35% up on prior year.
- The softening in applications translates to originations: with second half 2022 down 29% on the first half.
- The key though, is closing AUM – as this provides the base income flow for the next year: and the strategy of driving volume growth in the first half allowed us to grow AUM to a record $18.2 billion for our lending portfolio – a growth of 15% on December 2021.

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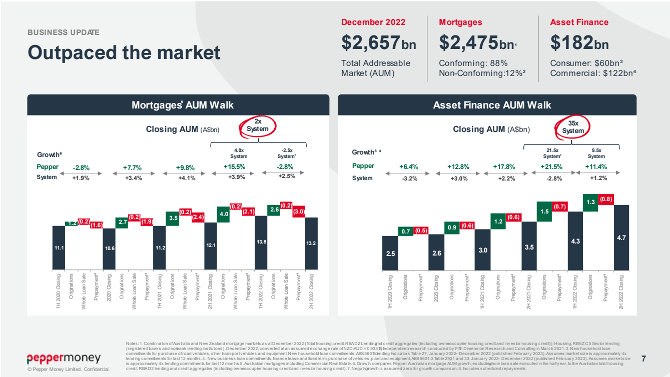

- Following on from this it is not surprising while year on year we outpaced the market in Mortgages – growing 2 times system, it was a tale of two halves with the first half 2022 growing 4 times and second half 2022 slipping back and we were 2.5 times below system growth. As noted, total system declined in the second half
- Our diversification into Asset Finance at the end of Q4 2014 and how we have built, extended and grown products, channels, technology platforms and partnerships really shows through when we look at how the business outstripped the market by 35 times for the full year, 21.5 times in the first half and 9.8 times in the second half. I know the two half numbers don't add up to 35 – it's because total market declined in both halves, so we set the base to zero. Arguably this means we grew even faster than our reported 35 times.
- Now to focus on our pricing response to the rate changes and how we flexed to our non-conforming product range in the second half.

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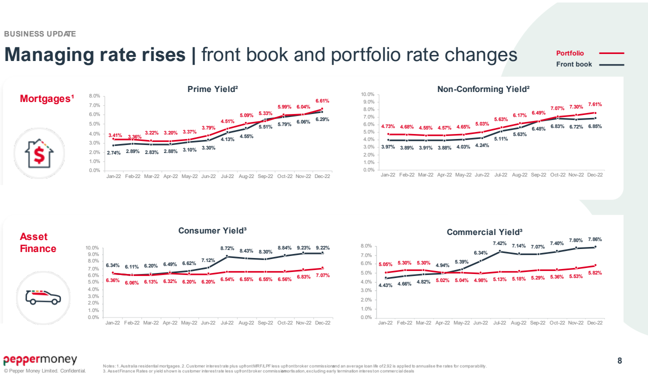

- This slide illustrates how have we responded in terms of price changes.
- As our funding costs increased, we have moved both front and back book pricing in Mortgages and front book pricing in Asset Finance, given it is a fixed rate product.
- In Mortgages:
  - o Since the RBA started to increase interest rates in May this year until the end of December, we moved our back book pricing by 36bps over OCR, and since the beginning of the year we moved front book by a blend of 16bps over the OCR.
  - o As a result, specifically over half 2 over half 1 2022 average portfolio rates increased by 2.09%.
  - o This increase however, was partially offset by ongoing increase in BBSW, as well as widening margins on new issuances which drove up the cost of funds.
- Our Asset Finance business has seen significant pressure on funding margins as swap rates have widened over the reporting period. This has necessitated a series of front book rate increases to maintain business performance, and on average we moved Commercial 53bps over 2 Years Swap and by Novated 23bps.

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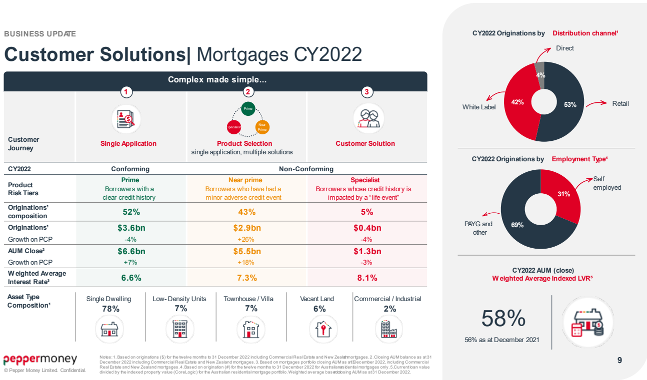
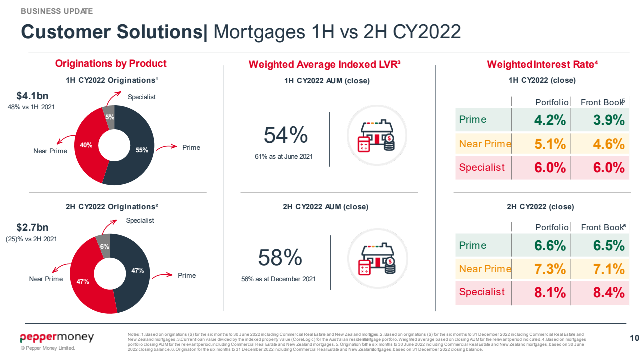


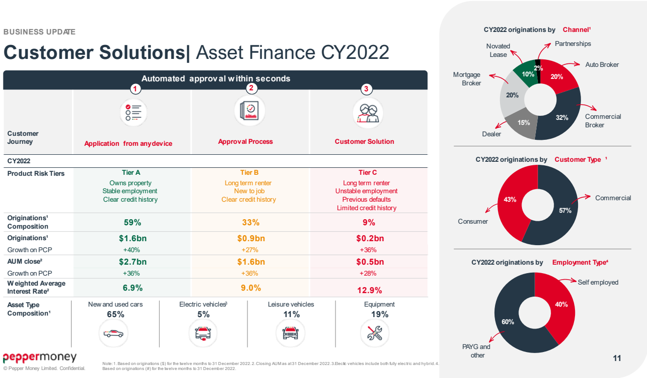
- Given our different strategies half on half, it's probably more interesting to look at the half on half performance in Mortgages, so turning to the next page

SLIDE NUMBER 10



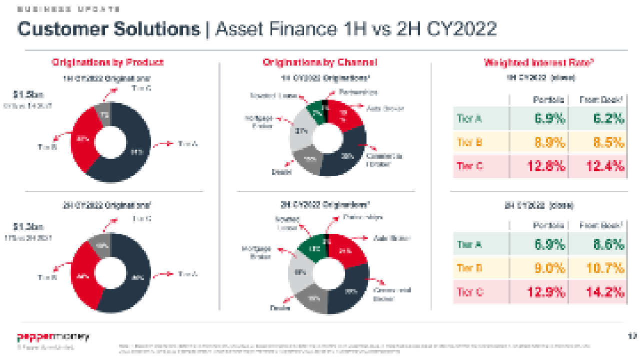
- As mentioned earlier we delivered record Originations for Mortgage in 2022 – at $6.8 billion a growth of 7% on PCP.
- Our focus on volume in first half is evident through Prime, contributing 55% of the Originations … we grew total Originations by 48% on first half 2021.
- Our diverse product range gives us options to shift the mix of our Originations to better manage margin vs volume.
- As the May, June and July rate rises took effect, and given the pressure on cost of funds, we shifted our originations focus – which I implied at the half year results we would do – to drive volume from our higher yielding non-conforming products. This saw the mix of Originations in the second half shift to non-conforming – which delivered 53% of Originations, 47% Near Prime and 6% Specialist.
- We are a business that knows how to price for risk – and one way of controlling risk in the portfolio is managing LVRs. In the first half our portfolio had a dynamic LVR of 54% and second half 58% which reflects the softening in property prices. We also take a conservative approach to the type of security we accept, with single dwelling freestanding homes representing 78% of our portfolio.
- Pepper Money remains committed to helping those customers underserved by traditional banks by creating financial inclusion- with 31% of originations in 2022 coming from self-employed / small businesses.
- For 6 consecutive years - with year-on-year volume growth - we retained and improved our industry leading turnaround times. We make the complex simple through our in-house, purpose-built technology and the depth of our data analytics. We continue to deliver fully underwritten non conditional approvals in under 7 hours.
- Now onto Asset Finance.

SLIDE NUMBER 11



- Our Asset Finance business continues to grow and expand its products, distribution, and customer footprint. The business continued, over 2022, to surpass the origination records set in 2021.
- Total Originations at $2.8 billion grew 35% on PCP.
- Bringing Total AUM to a record $4.7 billion up 35% on PCP and the business now contributes 37% of Total Operating Income.
- Our acquisition of one of the largest online asset finance brokers in Australia – Stratton Finance – completed on 1 July 2022 and we have been working on extending revenue synergies for our Asset Finance and Mortgage businesses through leveraging on Stratton's extensive customer base, and their in-house broker and franchise distribution footprint.
- Continuing on with Asset Finance.

SLIDE NUMBER 12



- Our focus on volume in the first half is evident through Tier A – 100% clean credit - contributing 61% of the Originations. First half Asset Finance grew Originations 67% on first half 2021. The mix shifted in the second half – with Tier B and C contributing 44% of Originations.
- One key advantage of our Asset Finance business has been the ability to extend and grow across multiple fronts – through new products and markets in Novated Leasing, EV and Commercial, or through the ability to grow share of wallet with the focus on "ease of doing business" and a customer centric approach which is delivered through our purpose built platform Solana with multiple API integrations, and the use of Biometrics, E-signing and Real Time Payments to ensure we deliver on, our speed to yes and our speed to cash.

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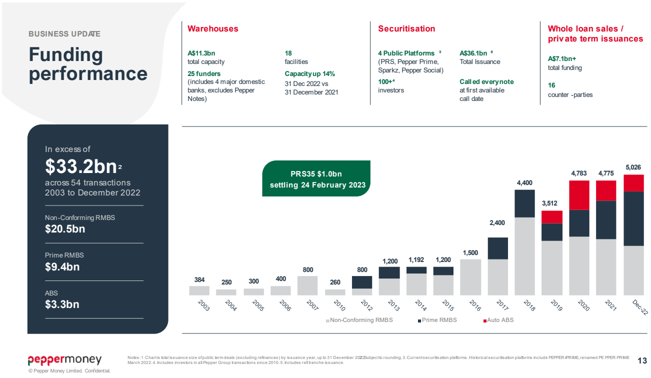
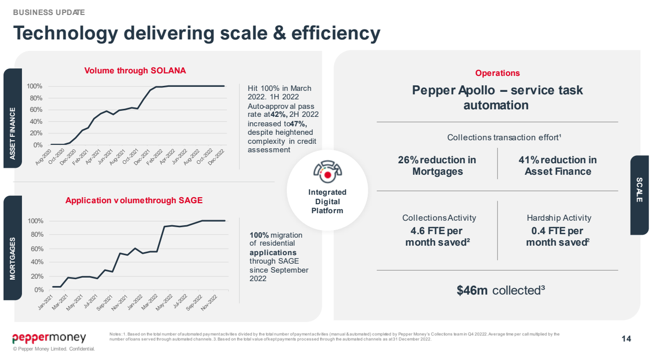


- Moving to funding.
- We have a strong and long-established track record in debt capital markets. We have a broad and deep investor base of both domestic and global debt investors supporting us over the past two decades.
- Since 2003 to the end of 2022, we have raised in excess of $33.2 billion across 54 transactions via our 4 programs – three RMBS, namely Pepper-Prime, PRS, Pepper Social - and one ABS program called SPARKZ
- It is the strength and longevity of our relationships with investors and our loan performance track record that allows the business to continue to raise funds and grow, even given the challenging market conditions.
- We increased our warehouse capacity to $11.3 billion, up 14% on December 2021 giving us significant scope to fund our aspirations for growth across both Mortgages and Asset Finance.
- We have raised, from the public markets, in excess of $5 billion in CY2022 – this was a record for our business. We completed seven public securitisations in total and since our half year results we completed.
    - PRS33 of $500.0 million;
    - Pepper Prime 2022-2 of $1.25 billion;
    - PRS34 of $750.0 million.
- And as I mentioned earlier, we have had a strong entry into 2023 where, tomorrow we will settle our first securitisation for the year – PRS35 – which is mainly composed of non-conforming loans. This is a deal which we upsized from $500 million to $1 billion.

- As I have said in the past, we have always taken the prudent approach to funding and maintained a minimum of 6 months of headroom. This is a part of our ongoing strategy that allows us to be prepared to manage any cycle whether it’s up or down.

SLIDE NUMBER 14



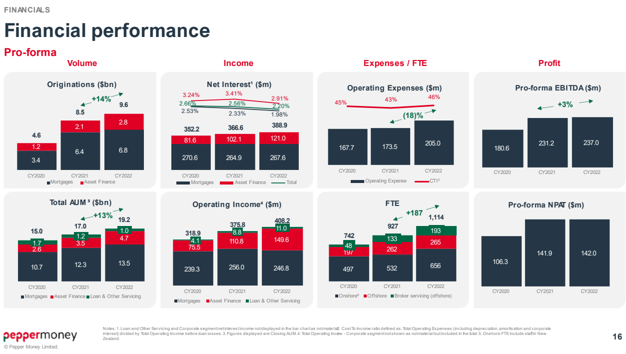
- Onto Operations.
- Our efficient and scalable shared technology platform and digital capabilities is a key factor enabling the business to manage and fulfil record Originations.
- With both Sage & Solana now accepting 100% of all applications we are able to create significant efficiencies, decision consistency and market leading turnaround times for our introducers, brokers and customers.
- Solana also delivered record levels of auto approval reaching 47%, playing a material role in achieving a customer NPS score of 62.5%.
- Our servicing platform, Apollo, continued to deliver enhanced customer self-help options and materially reduce customer effort post settlement.
- We continue to leverage our technology stack, creating capacity and efficiencies to accommodate future growth. We are listening to our customers and partners - designing solutions to give them more ways to engage and interact with us.

SLIDE NUMBER 15

- And before handing over to Therese, I would like to touch on our continuing focus on sustainability.
- Pepper Money has been built on discovering new ways to finance ambition with a mission to "help people succeed". Pepper Money has built strong foundations of supporting the community, embedding good corporate governance, and lending responsibly to our customers.
- And we are on the path to continue to strengthen our ESG Framework to provide a quantifiable guide for our employees and stakeholders on the standards we are committed to.
- And while we had many initiatives over 2022 – whether it's the investment we make in our people through wellness programs, annual pay parity reviews, leadership development which supported our Engagement scores, through to our Pepper Giving program – run by employees across the Company – who determine where we should invest not just dollars but time and effort through our employee volunteering program.
- The one I would like to call out was our Pepper Shout Out initiative. All over Australia, acts of decency and kindness – small and large – are helping others to succeed in tough times. Pepper Money wanted to recognise these people, in a way that is designed to connect our communities. As a result, Pepper Money created the Shout Out campaign to help further the efforts of people making a real-life difference to others across Australia. Over 300 nominations were received and in total 58 awards were provided in 2022, for people nominated by others in their community. Each award that Pepper Money gave was thoughtfully designed to meet the needs of the person and their situation, by identifying opportunities to extend the work being done, and recognise the person by doing something special that is uniquely suited to them.

- I will now turn over to Therese to run through the financials, before I close out on Outlook and then take Q&A

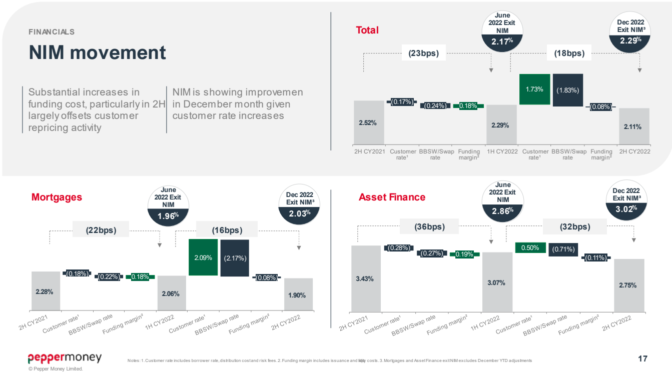
SLIDE NUMBER 16



- Thank you, Mario, and good morning, everyone.
- As Mario has largely covered off most items on this page, I will just touch on a few points before moving to Net Interest Margin – NIM - and our credit performance.
- And while today, I will be focusing on our Pro-forma results, our Statutory NPAT at $140.5 million grew 8% on PCP.
- As noted by Mario - Originations at $9.6 billion grew 14% on PCP, with Lending AUM closing 2022 at $18.2 billion - an increase of 15% on the prior comparable period.
- Total AUM closed at $19.2 billion a growth of 13% on 2021. Strong closing AUM is always a focus of the business given AUM is a key driver of future period income.
- Volume growth was partially offset by further compression in Net Interest Margin, which, at 2.20% was 36bps down versus PCP - I will address the movement in NIM in detail in the next slide.
- And while we delivered record volume growth, Total Operating Income of $408 million did not keep pace with the Origination growth given NIM compression.
    - Mortgage Operating income of $247 million was marginally down, (4%), on PCP, with volume gains offset by NIM compression coupled with an increase to credit expense.
    - Asset Finance Operating income grew by 35% on PCP to $149.6 million as the business continues to drive scale and gain share. The positive credit performance of the portfolio continued, and credit expenses reduced, in part through the release of Model Overlays.
    - Asset Finance contributed 37% of the Total Operating Income in 2022 up from 29% in 2021 and 24% in 2020.
    - Loan and Other Servicing Operating income at $11.0 million grew 25% on PCP and this was mainly driven by the Broker Servicing business which we commenced in quarter 4 2020.

- Total Operating Expenses at $205 million includes both the consolidation of Stratton Finance for the 6 months to 31st December, as well as a one-off charge of $2.1 million booked in the first half of the year relating to the impairment of an equity investment we held in Volt Bank.
- So, excluding this impairment and adjusting for Stratton, our expenses grew 7% year on year which was largely due to the increase in FTE for our Broker Servicing business – the cost of which we recover, plus a margin, through Operating Income. As noted Loan and Other Servicing Income grew 25% on PCP.
- After normalising reported CTI of 46% for the impairment in Volt and the consolidation of Stratton, underlying CTI at 44% was only 1% higher than 2021.
- The 22 years of experience we have of managing through all cycles shows through our profit. We know our drivers and we know how to leverage them.
    - in an intensely competitive mortgage market with margins compressing - we know when to grow volumes and when to rebalance to the higher yielding products;
    - our business mix, provides a balanced portfolio with the right blend of short and long term lending assets,
    - we have a discipline approach to costs; and
    - our ongoing investment in our tech stack enables scale to leverage our cost base.
- This saw the business deliver Pro Forma EBITDA of $237 million, up 3% on PCP; and
- Pro Forma NPAT of $142 million which is in line with our record profit delivered in 2021.
- Now turning to NIM.

SLIDE NUMBER 17



- The impact of increasing BBSW and swap rates ahead of our ability to move price is clearly seen in these NIM waterfalls
- Over the first half of 2022 average NIM of 2.29% declined 23bps on the prior half:
  - the positive flow through from strong capital markets in 2021 supported the favourable variance in external funding, but this was offset by
  - reduced customer rates driven by price competition;
  - and the fact that the May / June RBA rate changes and our responding price increase, had only partially flow through at June;
  - But the largest contributor to NIM compression over the first half was BBSW / Swap volatility – which deteriorated 24bps on the prior half.
- As we all know the second half of 2022 was more volatile – given the consecutive rate rises by the RBA coupled with ongoing swap rate deterioration
- The waterfalls show how we, as a business, responded to the RBA rate increases through both back and front book price increases. Mario covered off our pricing responses earlier.
  - Our average NIM for the second half of 2.11% benefitted 173bps from customer rates increases when compared to half one;

    HOWEVER
  - the continued BBSW / swap rate volatility coupled with weakening capital markets saw NIM decrease by 191bps half on half, completely eroding the benefit of customer rate changes.
- As such our second half NIM was 2.11% and was 18 bps down on the first half.

- I do need to point out – that the December exit NIM of 2.29% is higher than the second half average, as well as being slightly ahead of the June exit NIM of 2.17% - this reflects some stability returning to capital markets as well as price increases flowing through.
- Focusing on Mortgages which is the graph on the bottom left:
  - the NIM compression we reported over 2021 continued to flow through into this year, and has been accelerated by the BBSW increases.
  - at 1.9% on average for the second half of 2022, the reduction of Mortgage NIM has been impacted by:
    - the positive mix shift to higher yielding non-conforming products plus price increases; but these were offset by
    - the volatility in BBSW and
    - further deterioration in external margins.
- Again, it is worth noting that Mortgage's December exit NIM of 2.03% is higher than the second half average of 1.90% as we have started to see BBSW stabilise and our price increases flow through the book.
- Now to Asset Finance – which is the graph on the lower right-hand side:
  - the volatility in swap rates is clearly seen in our Asset Finance NIM. Over the second half of 2022 NIM contracted 71bps from rising swap rates. This was on top of a contraction of 27bps in the first half of 2022.
  - And while we moved customer rates up by 50bps in the second half, this was eroded by adverse cost of funds as well as business mix. The Novated Lease segment grew as a percent of total – moving from 7% of Originations in the first half to 13% in the second half. While Novated Lease has a low NIM, as it is salary sacrificed, it virtually has no credit losses, so margin after losses is maintained.
  - As our Asset Finance business is fixed rate – we hedge the book almost every 2 days: which does allow for some protection in terms of swap rates. What we did see, however, were rates moving faster than even our hedging program.
- These factors contributed to Asset Finance NIM reducing from 3.07% first half 2022 to 2.75% in the second half.
- Again, Asset Finance December exit NIM of 3.02% is showing a return to the average rate as swap rates stabilise.

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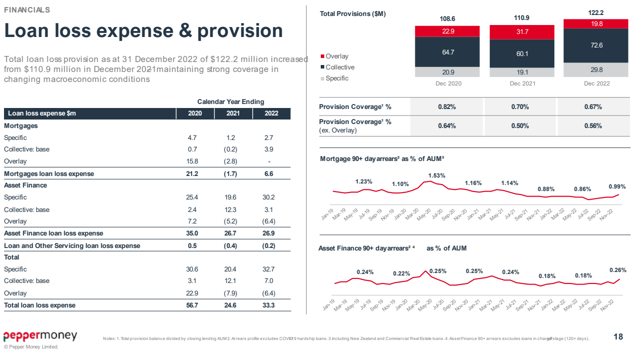

- Now to focus on the credit quality of our portfolio.
    - We have high quality residential and asset finance lending businesses, with more than 22 years experience in credit and underwriting - through all cycles.
    - We know how to manage distressed assets - and know how to analyse what causes that distress and take the learnings into our credit policies.
    - And on top of this we are prudent in our approach to provisioning.
- Total Credit expense increased by $9 million on PCP or 35%.
- As we moved through 2022, and as the RBA rate rises continued, we chose to increase the weight of the "downside" case in respect of macro-economic variables that drive credit modelling. We considered this prudent given the likelihood that the 8 consecutive interest rate increases the RBA implemented over 2022 would likely have a significant impact on consumer disposable income.
- At the end of December, we hold total provisions of $122.2 million - a coverage ratio of 0.67% of AUM, up from 0.62% as at June 2022.
- Including Post Model Overlays total Credit expense increased 35% on the prior comparable period to $33 million. 2022 included a reduction of $12 million in Overlays in Asset Finance given the underlying performance of the portfolio and the clean credit mix.
- We continue to monitor early indicators of potential future loss through the 90 plus days arrears – as per the chart on the bottom right-hand side. Please note that, as per industry standard, COVID hardships in 2020 / and early 2021 have been removed.

- While 90 plus days arrears trended up towards year end, Mortgages at 0.99% of AUM in December is well below the longer-term average of 1.2% and Asset Finance at 0.26% is returning to pre COVID levels.
- However, as noted we are prudent hence continue to hold $20 million in Post Model Overlays

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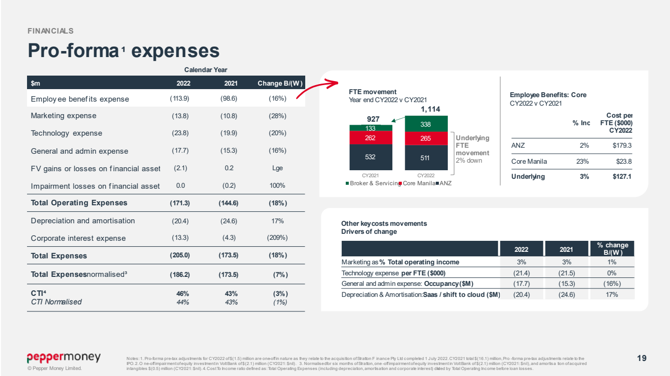
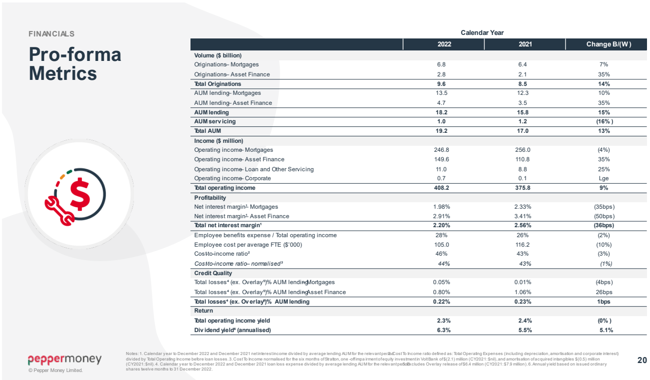


- Turning to expense management
- The underlying picture is slightly muddied due to the consolidation of Stratton in the second half of the year.
- While our Reported Pro-forma Operating Expenses of $205 million, increased 18% on PCP, if we remove the impact of Stratton and the one-time impairment to our investment in Volt Bank, expenses grew a more modest 7%.
- Reported expense growth was largely due to an increase in FTE – with our Online and Broker Servicing businesses growing by 205 people December on December. Broker Servicing FTE costs are fully recovered, plus margin, via Operating Income, which I noted earlier increased 25% year on year.
- Our core FTE base continued to show efficiency gains, with FTE down 2% year on year. As we balance activities for lending between Australia and Manila, we continue to manage the increase to the average cost per FTE at 3% which correlates to our internal salary and wage inflation.
- Marketing spend increased $2 million on PCP reflecting the impact of Stratton, however the underlying re-investment rate of 3.0% of Total Operating income remains constant year on year.
- Technology cost increase in line with FTE - it is now largely a cost per seat.
- Notably, Depreciation decline – reflecting both our consistent year on year investment in our platforms as well as and the impact of moving to cloud and software as a service, where costs are OPEX-ed
- Amortisation increase by $0.5 million for Stratton intangibles

- But one area to note in terms of impact on Total Expenses and CTI is Corporate Interest – which increased by $9 million year on year.   This is the impact of BBSY volatility on our corporate debt facilities as we drew down on the CDF for the Stratton acquisition and subordinated debt for funding.
- Now turning to the core metrics

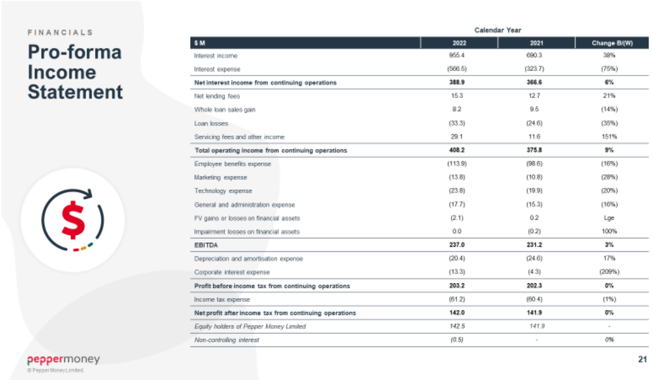


Calendar Year	2022	2021	Change B/(W)
Volume ($ billion)			
Originations– Mortgages	6.8	6.4	7%
Originations– Asset Finance	2.8	2.1	35%
Total Originations	**9.6**	**8.5**	**14%**
AUM lending– Mortgages	13.5	12.3	10%
AUM lending– Asset Finance	4.7	3.5	35%
AUM lending	**18.2**	**15.8**	**15%**
AUM servicing	**1.0**	**1.2**	**(16%)**
Total AUM	**19.2**	**17.0**	**13%**
Income ($ million)			
Operating income– Mortgages	246.8	256.0	(4%)
Operating income– Asset Finance	149.6	110.8	35%
Operating income– Loan and Other Servicing	11.0	8.8	25%
Operating income– Corporate	0.7	0.1	Lge
Total operating income	**408.2**	**375.8**	**9%**
Profitability			
Net interest margin[1]– Mortgages	1.98%	2.33%	(35bps)
Net interest margin[1]– Asset Finance	2.91%	3.41%	(50bps)
Total net interest margin[1]	**2.20%**	**2.56%**	**(36bps)**
Employee benefits expense / Total operating income	28%	26%	(2%)
Employee cost per average FTE ($'000)	105.0	116.2	(10%)
Cost-to-income ratio[2]	46%	43%	(3%)
Cost-to-income ratio– normalised[3]	*44%*	*43%*	*(1%)*
Credit Quality			
Total losses[4] (ex. Overlay[5])% AUM lending– Mortgages	0.05%	0.01%	(4bps)
Total losses[4] (ex. Overlay[5])% AUM lending– Asset Finance	0.80%	1.06%	26bps
Total losses[4] (ex. Overlay[5])% AUM lending	**0.22%**	**0.23%**	**1bps**
Return			
Total operating income yield	**2.3%**	**2.4%**	**(0%)**
Dividend yield[6] (annualised)	**6.3%**	**5.5%**	**5.1%**

- Our value tree continues to be:
  - volume and margin;
  - supported by portfolio mix;
  - coupled with discipline cost management;
  - and leveraging productivity through a constant reinvestment ratio in marketing and technology;
  - drives performance.
- For the full year, volume growth is reflected through our record Originations across both Mortgages and Asset Finance – supporting an uplift in Lending AUM of 15% on PCP and Total AUM of 13% on December 2021 close.
- Total Operating income grew 9% on PCP. While volume supported the business in the first half of the year – challenging market conditions and the pressure on NIM did see Operating Income yield fall marginally year on year to 2.3%
- Reported CTI of 46% was impacted by the consolidation of Stratton and the impairment previously noted. Removing these items CTI was 44% - a slight deterioration on 2021, but if we were also adjust for the impact of BBSY volatility on our Corporate Interest, CTI would be just below 43% - in line with 2021.
- The depth of our data capabilities, credit underwriting and our risk based approached has seen continued improvement in the quality of our assets with Loan Losses as a % AUM - improving to 0.22%, excluding Management Overlay.

Given the strong performance and capital management of the business the Board has declared a final, fully franked dividend of 5.1 cents per share which is an annualised dividend yield of 6.3%.

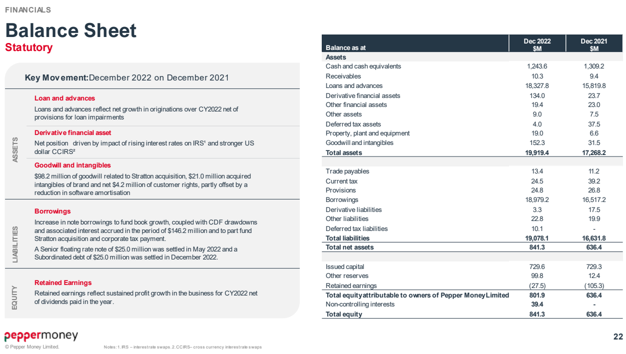
SLIDE NUMBER 21



Calendar Year			
$ M	**2022**	**2021**	**Change B/(W)**
Interest income	955.4	690.3	38%
Interest expense	(566.5)	(323.7)	(75%)
Net interest income from continuing operations	**388.9**	**366.6**	**6%**
Net lending fees	15.3	12.7	21%
Whole loan sales gain	8.2	9.5	(14%)
Loan losses	(33.3)	(24.6)	(35%)
Servicing fees and other income	29.1	11.6	151%
Total operating income from continuing operations	**408.2**	**375.8**	**9%**
Employee benefits expense	(113.9)	(98.6)	(16%)
Marketing expense	(13.8)	(10.8)	(28%)
Technology expense	(23.8)	(19.9)	(20%)
General and administration expense	(17.7)	(15.3)	(16%)
FV gains or losses on financial assets	(2.1)	0.2	Lge
Impairment losses on financial assets	0.0	(0.2)	100%
EBITDA	**237.0**	**231.2**	**3%**
Depreciation and amortisation expense	(20.4)	(24.6)	17%
Corporate interest expense	(13.3)	(4.3)	(209%)
Profit before income tax from continuing operations	**203.2**	**202.3**	**0%**
Income tax expense	(61.2)	(60.4)	(1%)
Net profit after income tax from continuing operations	**142.0**	**141.9**	**0%**
Equity holders of Pepper Money Limited	*142.5*	*141.9*	-
Non-controlling interest	*(0.5)*	-	*0%*

- So turning to slide 21 - as we have largely covered all items in the income statement, I will now just go to page 22 - our balance sheet.

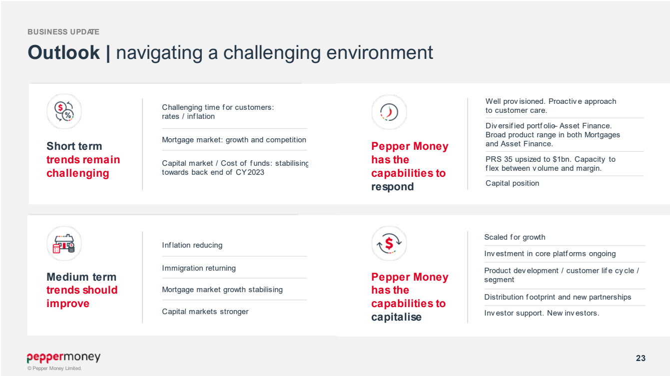
SLIDE NUMBER 22



Balance as at	Dec 2022 $M	Dec 2021 $M
Assets		
Cash and cash equivalents	1,243.6	1,309.2
Receivables	10.3	9.4
Loans and advances	18,327.8	15,819.8
Derivative financial assets	134.0	23.7
Other financial assets	19.4	23.0
Other assets	9.0	7.5
Deferred tax assets	4.0	37.5
Property, plant and equipment	19.0	6.6
Goodwill and intangibles	152.3	31.5
Total assets	**19,919.4**	**17,268.2**
Trade payables	13.4	11.2
Current tax	24.5	39.2
Provisions	24.8	26.8
Borrowings	18,979.2	16,517.2
Derivative liabilities	3.3	17.5
Other liabilities	22.8	19.9
Deferred tax liabilities	10.1	-
Total liabilities	**19,078.1**	**16,631.8**
Total net assets	**841.3**	**636.4**
Issued capital	729.6	729.3
Other reserves	99.8	12.4
Retained earnings	(27.5)	(105.3)
Total equity attributable to owners of Pepper Money Limited	**801.9**	**636.4**
Non-controlling interests	**39.4**	-
Total equity	**841.3**	**636.4**

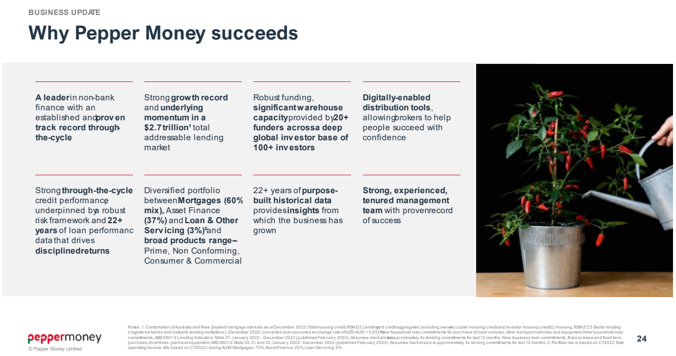
- The main movement in the balance sheet has been to Goodwill and Intangibles, reflecting the acquisition of Stratton Finance
- Loans and advances as at 31 December 2022 of $18.3 billion reflect the 15% net portfolio growth on December 2021.
- We originated $9.6 billion in new financial assets over the period. The asset growth was financed by:
    - the issuance of Public Term securitisations of just over $5.0 billion,
    - a 14% uplift in the warehouse capacity on 2021 year end, and
    - a further $1.8 billion in Private Term securitisation,
- Net Assets at 31 December 2022 grew 15% over PCP - in line with business origination growth.
- Cash and cash equivalents at the year-end stood at $1.2 billion.
- And Retained earnings reflect sustained profit delivered by the business over 2022, net of dividend paid in the year.
- And as usual we continue to manage capital - balancing between holding sufficient levels to manage in uncertain markets and knowing when and where to invest for growth.
- Thank you and I will now hand back to Mario to close.

SLIDE NUMBER 23



- Thanks Therese
- Before I open for questions, and as we look forward, I would like to note the following;
    - Our strategy to drive volume in the first half helped us deliver record originations in 2022
    - We continued our double-digit AUM growth, which supports future income
    - Our credit and underwriting and portfolio mix delivered strong loan book performance
    - We have a path to deliver more new products over 2023 adding to our diversified product range
    - Our funding record speaks for itself, and we are well positioned to capitalise on growth across all our segments
- But I acknowledge that particularly in the short term there are challenges – in terms of inflationary pressures, continuing rate rises and lower credit growth … but this is not foreign territory for us and we know how to navigate through the challenges.
- In medium term, there are indicators that suggest we will see green shoots emerge towards the end 2023 and into 2024.
- So before heading into Q&A – why does Pepper Money succeed?

SLIDE NUMBER 24



- We are a leading non-bank with a proven track record of managing through the cycle
- With a demonstrated track record for growth
- Significant warehouse capacity that is set up for funding through the cycle and well positioned for growth when markets permit
- Our digitally enabled tools developed to place confidence in the hands of our brokers and customers by making complex – simple
- Our deep credit knowledge positions us at the forefront of knowing who & where to lend and how to price for that risk
- The diversified products we offer gives us an offensive and defensive strategy that is reflective of the market opportunity
- With over 22 years of historical loan performance data proving invaluable for disciplined growth in complex borrower situations
- And finally, we have a strong and experienced Management team with a proven track record of success.
- Thank you for your time, now, we will hand it back to the operator to open the lines to questions.