Pepper Money Limited

2023 Full Year Results Presentation Script

Thursday 29 February 2024

SLIDE NUMBER 2

Good morning, everyone and welcome to Pepper Money Limited's **calendar year 2023 full year 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 Money's CFO - **Therese McGrath** - will walk us through the financial performance. After some closing remarks from 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 Pepper Money's CEO – Mario Rehayem.

SLIDE NUMBER 3

- Thank you, Gordon.

- On behalf of my team at Pepper Money, I would like to thank everyone who has joined us today.

- 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, and our values provide the guide to how we do business and how we interact with our customers, stakeholders, and each other.

- The strength of our four pillars - customer, business, people, and brand - are all supported by over 23 years of data and through the cycle experience. As a business, we know when to drive volume, when to flex to margin and how to price for risk.

- Our strong values are the foundation that set the expectations for behaviour that guide and guard the business.

- Our core competencies have really come to the forefront when faced with the macroeconomic and market conditions experienced over the last 18 months.

- It is the consistent application of our strategy that has seen the business continue to navigate through these challenges and to deliver results in 2023 that reflect our ability to respond to market conditions, deliver on customer needs, leverage our diversified business portfolio to balance cyclical trends and to successfully identify and deliver on inorganic opportunities.

- **If we now turn to 2023 business highlights on slide 4**

SLIDE NUMBER 4

- As I spoke about at the half year, we were expecting the softening in Mortgage Originations seen in the second half of 2022 to continue into 2023. And this was the case.

- But we were prepared and responded - by accelerating the growth in Asset Finance, which has achieved – again – record results. This has helped counteract the current cyclical trend experienced in Mortgages.

- We delivered Originations of $7.3 billion and while (24)% lower than the prior comparable period, Asset Finance Originations of $3.4 billion, up 20% on PCP, were the highest the business has ever achieved.

- Mortgage Originations at $3.9 billion, were down (43)% on 2022, however, as I will cover later, as market conditions started to show signs of stability over the latter part of calendar year 2023- and major banks started to wind down cash-back offers - the decline in Mortgage Originations started to plateau and our second half Mortgage Originations of $2.2 billion grew 28% on the first half of 2023.

- Total AUM – which is a key foundation of future profitability – closed 2023 at $19.7 billion - the highest the business has achieved in its history. Lending AUM at $18.3 billion was marginally up from 2022 close. Servicing AUM - which includes the AUM transferred under our Whole Loan Sale program - at $1.4 billion was up 43% on prior comparable period.

- Funding is a core competency of the business. Over 2023 we raised a record $5.4 billion in public markets – up 7% on 2022. In addition to our seven Public Securitisations, we raised a further $1.6 billion in Private Term Securitisations and Whole Loan Sales. Warehouse capacity closed the year at $9.3 billion, down (18)% on December 2022 – given lower Mortgage Originations. We continue to maintain 4

– 6 months head room, meaning we are well positioned to capture growth as it returns.

- The diversification of the portfolio continues to deliver benefits, as we were able to capture growth opportunities in Asset Finance as market conditions remained soft in Mortgages. Asset Finance has grown to contribute 43% of Total Operating Income in 2023 up from 37% last year, with Mortgages now at 55%.

- We continue to be disciplined in credit risk management. The increase of (6) basis points in Loan Loss as a percent of Lending AUM on PCP was driven by mix – with Asset Finance AUM as a percent of Total Lending AUM increasing from 26% in 2022 to 31% in 2023. Loan Losses as a percent of AUM remain within long term averages.

- Customers are at the forefront of how we do business given our mission to "help people succeed" - our customer wellbeing forms part of this mission. Alongside welcoming over 89,000 new customers to Pepper Money over calendar year 2023, we also ensure we found ways to help our existing customers navigate increasingly difficult economic conditions - which we all experienced over the last year as both interest rates and inflation rose.

- Our customer value proposition is demonstrated through our Customer Net Promoter Scores. In 2023 we saw increases in product advocacy across all core Pepper Money products with results considerably ahead of the industry.

- I have spoken in the past about how we have built a scaled technology platform, supporting automation. This, coupled with our disciplined approach to cost management, saw Normalised Pro-forma Operating Expenses increase by (1)% - from $155.9 million in 2022 to $157.7 million in 2023. Normalising removes the impact of Stratton, acquired 1 July 2022, from the operating cost base, as well as the pro-forma cost of acquisitions.

- Pro-forma NPAT for 2023 at $111 million is (22)% below PCP - with lower volumes in Mortgages coupled with swap rate volatility, increased provisioning for loan losses as Asset Finance AUM grew - all impacting profit flow through.

- On top of this – expenses have increased on PCP given we annualised impact of Stratton - so 2023 has an additional six months of costs now reflected over and above PCP.

- As we enter 2024, I am encouraged by several trends – from easing inflation to stability returning to funding spreads. Likewise, as I noted earlier, we are starting to see demand in Mortgages pick up.

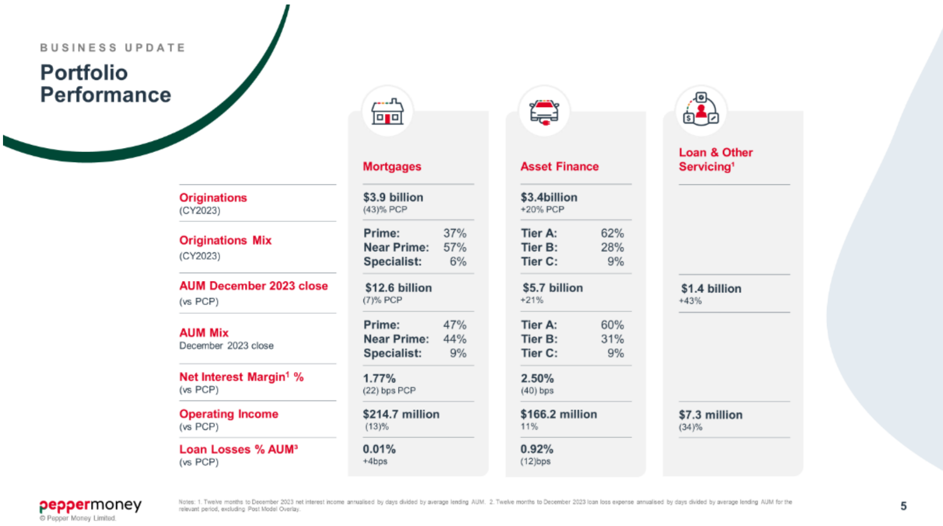
- The Board has declared a fully franked final dividend of 5 cents per share, representing a 37.5% payout ratio. For 2023 in total – covering interim and final dividend – we are returning 8.6 cents per share, representing an annualised yield of 6.4% and a payout ratio of 34.0%, up from 32.5% in 2022.

- Pepper Money remains, as always, disciplined in respect to capital. We have been able to grow our Asset Finance business over 2023 and capture opportunities – such as the acquisition of the HSBC New Zealand residential mortgage portfolio – given our capital management strategy.

- In the short term, given likelihood of lower mortgage origination growth across the market, as well as some moderation in the growth of Asset Finance, the capital needed to fund the business will likely moderate. As such the Board has considered opportunities to return capital to shareholders and today announced via a separate announcement its intention to commence an on-market share buyback from April this year. In addition, the Board has amended the Company's Dividend Policy increasing the annual payout ratio to 30% - 60% of Pro-forma NPAT from 30% - 40%, effective from the 2024 financial year.

- **Now to business performance starting on slide 5.**

SLIDE NUMBER 5



- Pepper Money operates in a large addressable market, covering $2.6 trillion of credit outstanding for mortgages and $221 billion of credit outstanding for asset finance. There is a breakdown of the total addressable market included in the appendices.

- Our three core segments remain:

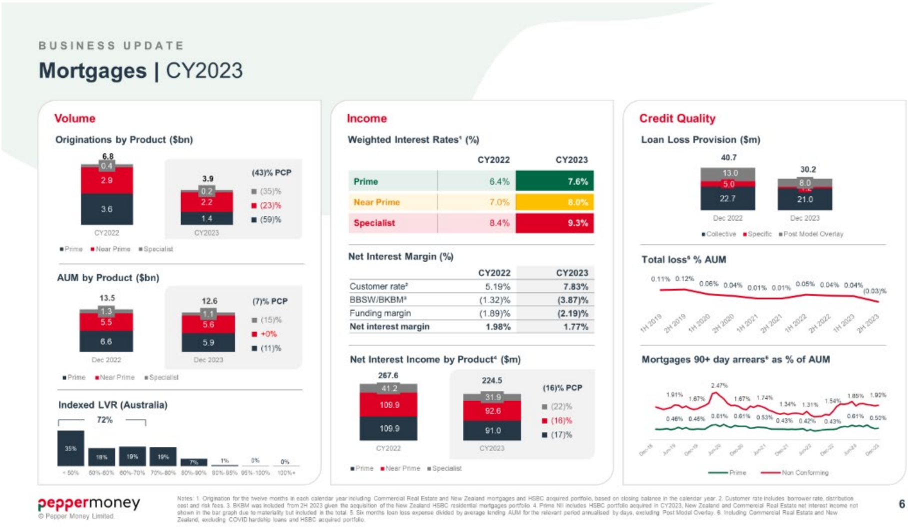
1. **Mortgages**, made up of residential in Australia and New Zealand, commercial real estate in Australia, and in 2023 we launched “Super Smart” - our Self-Managed Super Fund product in Australia, which is already gathering momentum.

2. Our next key segment is **Asset Finance**, a business we have organically built, and is now one of the largest asset financers in the country. Our focus is small balance lending, in both Consumer and Commercial whilst also increasing our share in the Novated Leasing segment.

3. Our third segment- **Loan and Other Servicing**, encompasses our servicing of loan portfolios – generally via our Whole Loan Sale funding program – where we sell loans that we have originated to a third party, but retain the customer service and operations of these loans. In Quarter 4 2023 we exited the small Broker Administration business we started under COVID-19, as it is no longer seen as core.

- **Turning now to the performance of the key business segments, starting with Mortgages on slide 6.**

SLIDE NUMBER 6



- The market has been tough for Mortgages. Equifax reported that total mortgage enquiry volumes were down over (7)% in the 12 months to December 2023. At the same time as demand was down, banks were competing to gain market share – and were offering very compelling rates, and cash backs were the norm for most of the year.

- As I discussed at the half year, our focus over 2023 for Mortgages – has been to leverage our position in the Non Conforming segment – an area banks do not play in.

- While Originations have slowed down, we have skewed the mix to Near Prime and Specialist, which accounted for 63% of our Mortgage Originations in the year, up from 48% in 2022. Pepper Money started over 23 years ago as a Non-conforming lender and today we continue to have strong market position in this space.

- Mortgage AUM dropped by (7)% on PCP to $12.6 billion. Other than the lower Origination rate, we have also seen heightened customer attrition across our Mortgage portfolio, as customers sought lower rates and capitalised on cash back offers from the banks.

- Our disciplined credit risk management – has seen indexed LVRs protected, with 72% of loans now sitting in LVR bands below 70%.

- We moved our customer rates within two weeks of when the RBA announced an increase to the offical cash rate, however, there is a negative lag impact as we are required to provide customers 20 days notice before their repayment amount can increase.

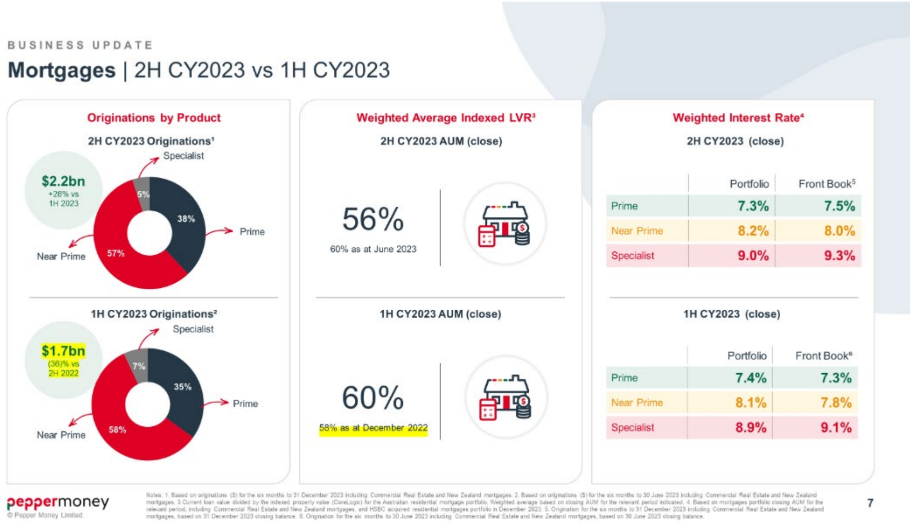
- The largest adverse drivers of Mortgage NIM continues to be swap rate volatility and customer attrition. While our average customer rate increased 264 basis points on PCP – driven in part by pricing changes following rate rises, and in part by business mix moving towards Non-conforming - BBSW volatility eroded this price gain by (255) basis points.

- A detailed NIM walk will be covered in the Financial section, and likewise Therese will walk you through our Credit performance.

- Before turning to Asset Finance, I think it is worthwhile looking at Mortgage performance second half 2023 versus first half, as the downward pressures on this business segment are starting to stabilise.

- So t**urning now to slide 7.**

SLIDE NUMBER 7



- As I noted, as market conditions started to show signs of stability over the latter part of calendar year 2023 - and major banks started to wind down cash-back offers - the decline in Mortgage Originations started to plateau and second half Mortgage Originations of $2.2 billion grew by 28% on the first half of 2023. Our Red Hot promotion – which we ran from August to end of October – delivered on the objectives we had established for the campaign, namely to enhance Pepper Money's position with our brokers and to support volume for our Non-conforming products. Non-conforming Originations in second half 2023 were $1.4 billion up 21% from the first half.

- The campaign objective of enhancing our position with our brokers helped to accelerate Prime Originations as well, which at $843 million in the second half of 2023 were 40% higher than first half.

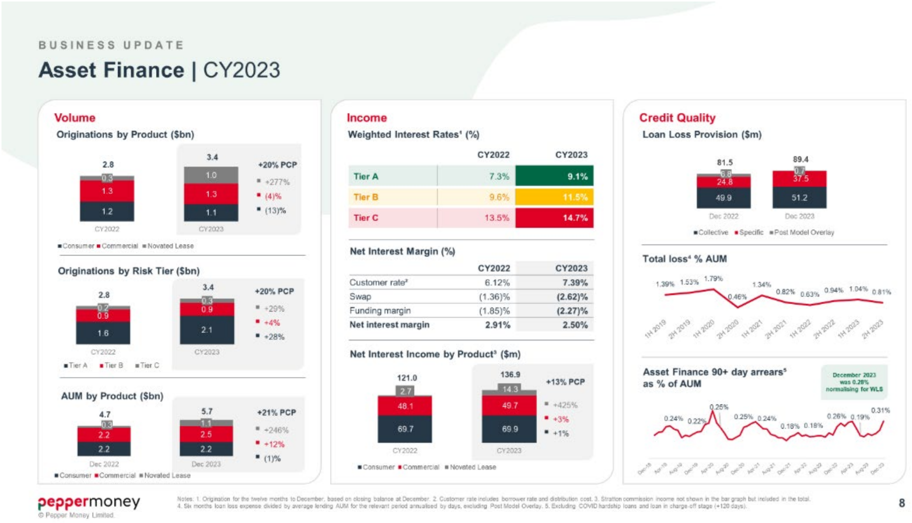
- This was at a time where Equifax reported an (8)% decline in Mortgage enquiries.

- Growth was not at the expense of our credit performance – our weighted average indexed LVR for the second half was 56%.

- Customer pricing was more stable over second half 2023 as RBA only increased the official cash rate once in the six months to December versus the 4-interest rate increases experienced over the first half of 2023.

- **Now to Asset Finance starting on slide 8.**

SLIDE NUMBER 8



- Our Asset Finance business continues to outperform the market – growing 1.4 times system over 2023. We delivered Originations of $3.4 billion, up 20% on prior comparable period. Novated Leasing continued to grow well ahead of system – with Originations at $1.0 billion up from $276 million in 2022.

- Our investment in systems and processes meant we could continue to efficiently drive scale and productivity in Asset Finance.

- We were able to capture growth in Asset Finance – as our capital management allowed us to be able to deploy the capital needed.

- Asset Finance has a higher credit enhancement than Mortgages so requires more cash to support new business. We were able to bring forward planned ABS securitisations to support growth, and over 2023 we completed two SPARKZ transactions raising $1.4 billion. Given the scale that we have now achieved in Asset Finance – with AUM growing past the $6.0 billion mark in September 2023 - we also undertook our first Asset Finance Whole Loan Sale in December - which complements our ABS funding program. Whole Loan Sales have, since 2016, been part of our funding and capital management in Mortgages, and allows us to recycle capital released behind new originations growth.

- AUM for Asset Finance closed 2023 at $5.7 billion – growing 21% on PCP. Adjusting for the Whole Loan Sale in December – where the AUM is transferred to our Loan and Other Servicing segment – Asset Finance would have closed at $6.2 billion a growth of 31% on December 2022.

- As always, we were disciplined with the type of risk we took on – 63% of Originations in 2023 were Tier A – clean credit customers, and Originations were up 28% versus prior comparable period.

- Asset Finance Net Interest Margin experienced compression over 2023 – reducing by (41) basis points from 2.91% to 2.50%. While pricing initiatives supported a 127-basis point increase in portfolio customer rates, the mix of Novated Leasing – a lower margin product - coupled with swap rate volatility, and, the wind down of favourable funding margins from 2020 and 2021, drove the reduction in NIM. As a business, we hedge our Asset Finance pipeline, every 2nd day, however swap rate movements were ahead of our hedging program, particularly at the end of June. As we enter 2024, we are seeing frequency of swap rates starting to stabilise.

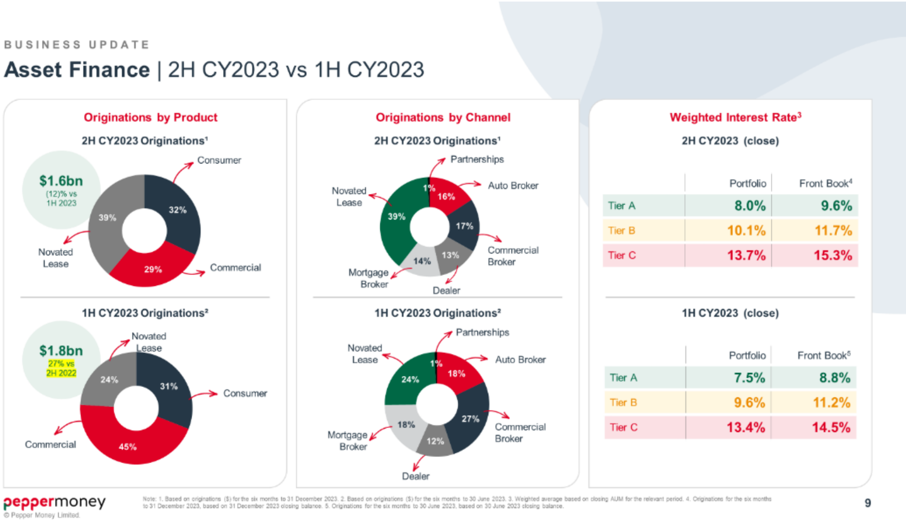
- Onto credit performance for Asset Finance. We have increased credit provisions by $7.9 million year on year. This is in part driven by the increase in AUM and in part by an increase in late-stage arrears and insolvencies. The increase in insolvencies is a return to historic trends, following the removal of Government protections, implemented under COVID-19 that ceased at the beginning of 2023.

- Total Loan Losses as a percent of Lending AUM for second half 2023 closed at 0.81%

- There is some distortion in the year end exit 90+ arrears for the portfolio, which at 0.31% looks elevated. This is due to the Whole Loan Sale in December. Adjusting for the Whole Loan Sale 90+ arrears were 0.28%.

- **Turning now to second half performance for Asset Finance on slide 9.**

SLIDE NUMBER 9

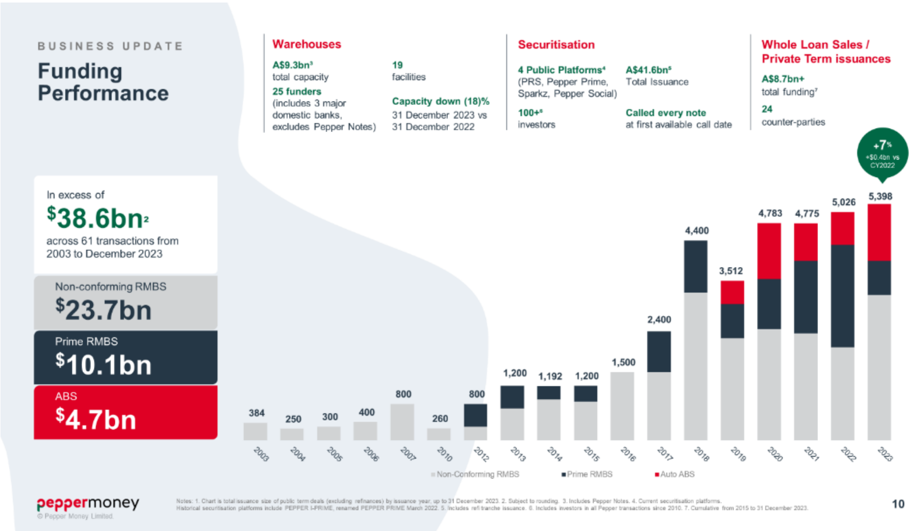


- From a half on half perspective, growth in Asset Finance marginally slowed down. Given the pressure on households and businesses alike from rising rates and inflation, it was expected that the pace of growth would lessen.

- In the second half of 2023 Asset Finance delivered Originations of $1.6 billion and while down (12)% on the first half of the year, the business grew by 21% on the second half of calendar year 2022. Growth came from Novated Leasing and Tier A products.

- **Now turning to funding on slide 10.**

SLIDE NUMBER 10



- You have heard me say many times - funding is a core strength of Pepper Money.

- Over 2023 we have raised a record $5.4 billion from the public markets. We completed seven Public Term Securitisations in total – four Non-conforming RMBS totalling $3.2 billion, one Prime RMBS for $750 million and two ABS totalling $1.4 billion.

- We are a frequent and programmatic issuer – and alongside the seven Public Term Securitisations completed, we raised a further $1.6 billion in Private Term Securitisation and Whole Loan Sales.

- Given our Mortgage volumes - we reduced Warehouse capacity limits by $(2) billion, bringing total Warehouse capacity at 31 December 2023 to $9.3 billion, down (18)% from 31 December 2022.

- We have again started the year strong– and our first RMBS for the year - a $750 million PRS Non-conforming raise, settled yesterday at margins that are inside those experienced in 2023. PRS39 had a weighted average margin of 1.66% compared to PRS 35 in February 2023 at 2.23% and PRS 38, which settled in September 2023 at 1.93%.

- **Now to slide 11.**

SLIDE NUMBER 11

- Sustainability has been an inherent part of Pepper Money's foundations as we have built our business on the mission to "**help people succeed**". We seek to create sustainable value for our customers, employees, the communities in which we work, and for our shareholders.

- Over 2023 we continued to make significant progress on building a sustainable business model, which will benefit not just Pepper Money, but all our stakeholders. To highlight just some of the work achieved over 2023:

    - Our **diversity, equity and inclusion** strategy is underpinned by our guiding principles of Allyship, Celebrate and Educate – or ACE. Diversity and inclusion have always been part of our DNA. 45% of our Senior Managers are female, and we compared very favourably to the average for the Financial Services and Insurance sector in Australia which was 38% in 2023.
    - Our **people** continue to be highly engaged and again our employee engagement at 75 for Australia meant we continue to be in the top 10% of companies globally.
    - We continue to support our communities, largely through our **Pepper Giving** initiative – which gives not just dollars but also time. Our employees continue to give back to the community through regular volunteering opportunities, examples include gardening days at Women's and Girls' Emergency Centre and making sandwiches for children experiencing food insecurity through "Eat Up Australia" initiative. For the organisations that we support, the volunteering effort by our employees is meaningful.

- Our forefront position in EV lending has seen the business finance 8,986 electric vehicles in Australia since we commenced this program in 2015. Based on average vehicle distance travelled and lifecycle emissions we have, through financing efforts, helped save more than 39,000 tonnes of carbon emissions in 2023 and will offset up to 236,000 tonnes of carbon emissions over the lifetime of these vehicles.

- We pride ourselves on being a responsible business – its starts with how we develop our products, through to how we manage all aspects of our business, to ensure our customers can achieve the best outcomes.

- **Let's turn to slide 12 – our customers:**

SLIDE NUMBER 12

- Our mission to "help people succeed" supports our customers financial needs, through our focus on providing innovative home loan and asset finance solutions to customers who are typically underserved by traditional lenders. We welcomed over 89,000 new customers over 2023 and since 2004 have helped over 455,000 customers.

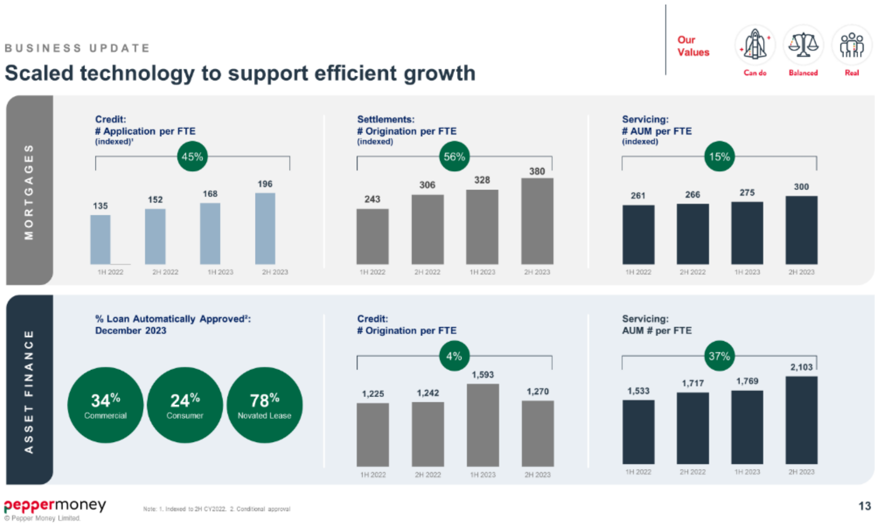
- We regularly monitor what customers tell us they need by listening through various Customer Effort and Net Promoter Score surveys and monitoring our operational metrics such as call centre wait times, time-to-yes and system outages.

- It is the time we put into listening to customers and responding with scaled platforms and processes, that supported our Net Promoter Scores – across all asset classes – outperforming the industry average. Our annual Customer NPS Survey saw increases in product advocacy across all core Pepper Money products with Asset Finance NPS of 50, 27 points higher than the industry average and the NPS for Home Loans was 9 points higher than industry average.

- 2023 was a difficult year for many people – our customers included – as household income was impacted by ongoing rising interest rates and inflationary pressures, and consumer confidence deteriorated. To support customers in making the right choice we have developed a suite of digital resources and tools with the aim to uplift and enhance financial literacy. Over 2023 more than 15,000 users accessed our Customer Support Hub and over 2,700 users accessed our Financial hardship and money management articles.

- **Turning now to slide 13.**

SLIDE NUMBER 13



- Our positive customer experience is underpinned by efficient technology.

- Our technology is scaled. We continue to be focused on automation and streamlining processes.

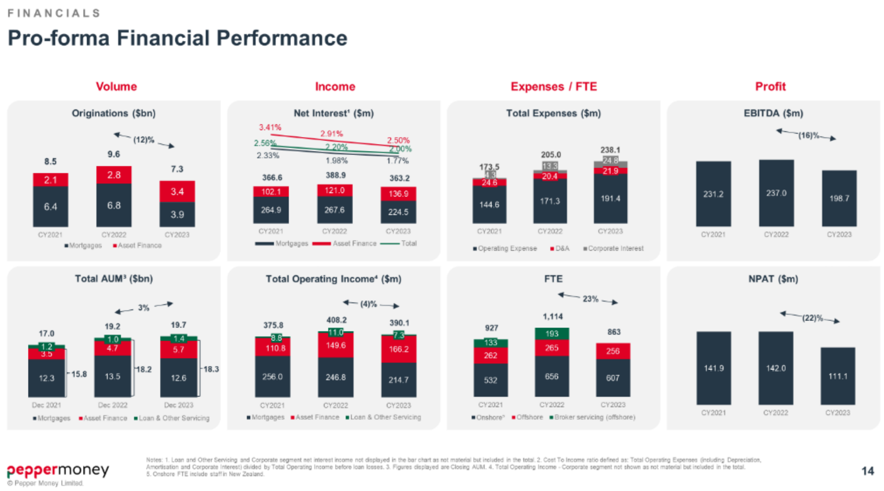
- In Mortgages, the efficiency of our **orginations platform** is demonstrated by the uplift in normalised application volume each Credit employee can process as well as the uplift in Origination volume per Settlement FTE. These gains of 45% and 56% respectively have been achieved through the continued development of our SAGE platform. Likewise our customer service platform - APOLLO - is delivering significant improvements in how we serve our Mortgage customers-demonstrated through the 15% gain in AUM per Servicing FTE

- In Asset Finance our SOLANA originations platform continues to support our partners and customers alike. Automation and API connection direct to our partner's CRMs has seen auto approval applied to 34% of Commercial loans and 78% of Novated Leasing loans over 2023. The speed to yes is a key driver of customer and partner satisfaction.

- And as like Mortgages our customer service platform APOLLO is delivering benefits to our Asset Finance business with a 37% gain in AUM per Servicing FTE

- **I will pass now to Therese** who will run through the full year financials for 2023, and then I will close out with some comments on outlook before handing back to the operator for Q&A.

SLIDE NUMBER 14

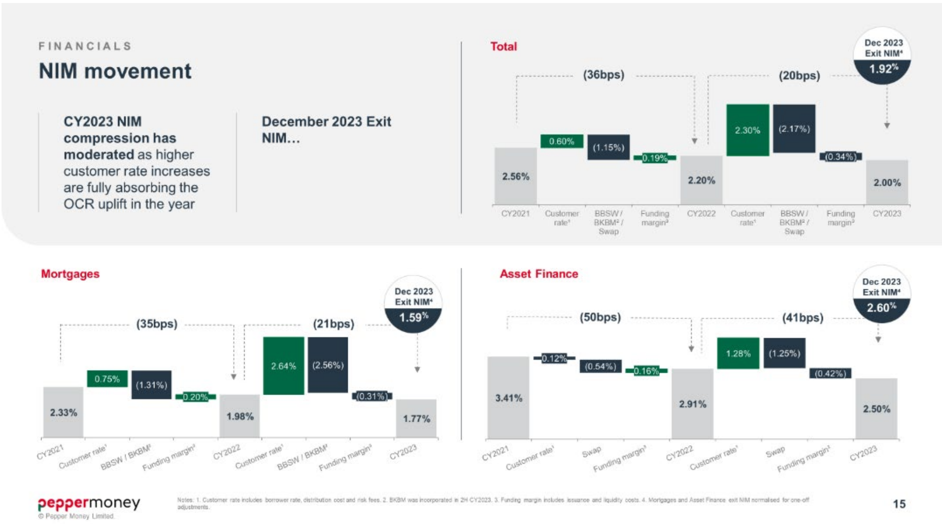


- Thank you, Mario, and good morning, everyone.

- As Mario has covered off the volume trends experienced by the business over the last 12 months, I will focus today on Net Interest Margin, Credit performance and Expense management.

- **If we turn first to Net Interest Margin, on page 14.**

SLIDE NUMBER 15



- While our Net Interest Margin continued to compress, the primary driver of the downward trend was swap rates.

- **Total NIM** for 2023 at **2 per cent** was down (20) basis points versus PCP:
  - while our pricing initiatives saw Customer Rates improve by **230 basis** points, this gain was eroded by adverse swap rate spreads, which drove NIM down by **(217) basis point**.

  - NIM was further impacted as funding margins have increased markedly over the last 18 months driving a further **(34) basis points** compression in NIM.

- **Turning now to Mortgages, which is the chart on the bottom left hand side:**
  - as the RBA increased interest rates, we implemented both back and front book price increases across our Mortgages portfolio.
  - Over 2023 – we increased, on average,
    - the back book by 143 basis points,
    - and the front book by
      - 128 basis points for Prime
      - and 131 basis points for Non-conforming.

  - These rates flowed through to support the average Customer Rates **improving by 264 basis points when compared to 2022**.

  - However, as we have noted, there is a delay between the date of notification of increase - and when it takes effect. This lag causes NIM to compress by around (10) basis points.

  - But what really continued to impact **Mortgage NIM** was the volatility in BBSW – which reduced NIM **by (256) basis points**. When the impact of BBSW is added to the deterioration in our funding margin - of (31) basis points - Customer Rate increases could not be fully recovered, and as such Mortgage NIM decreased (21) basis points year on year. I will cover Mortgages in more detail on the next slide.

- Our Asset Finance business – **which is the graph on the lower right-hand side** - saw NIM compressed due to two key drivers – swap rates and business mix:
    - the volatility in swap rates over 2023 cost NIM **(125) basis points**. As our Asset Finance products are fixed rate – we hedge the book almost every 2 days - which does allow for some protection. What we continue to experience however, was swap rates moving faster than even our hedging program – particularly around the half year. This was also a time where we saw volume accelerate as Commercial customers sought to capitalise on financial year-end tax incentives.

    - But like Mortgages – customers and partners come us our Asset Finance business given our service levels, speed to yes and ease of doing business. These attributes have helped to accelerate growth in our Novated Leasing segment which now represents 18% of Asset Finance AUM.

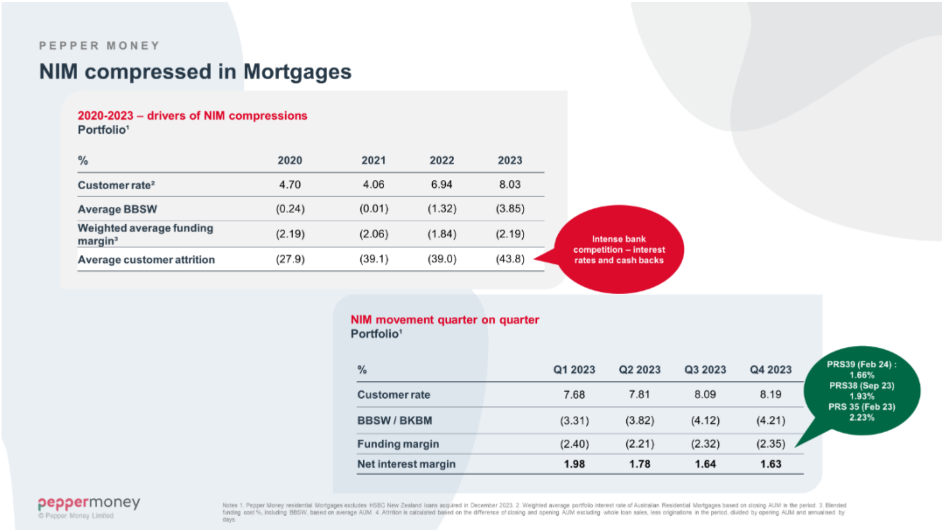
    - Novated Leasing has a lower NIM, and so as it grows the average Customer Rate is impacted through mix. However as Novated Leasing customers salary sacrifice, it has virtually no credit losses, so margins after losses are maintained. I will cover the favourable impact of Novated Leasing on our credit performance in slide 17.

    - We are not a price leader in Asset Finance and over 2023 pricing initiatives saw our average customer rates **increase 128 basis points,** net of mix.

    - However adverse cost of funds eroded the delta between customer rate increases and swap rate movements.

- **Turning to look at Mortgage NIM movements in more detail on slide 16:**

SLIDE NUMBER 16



- Starting with drivers of NIM compression 2020 to 2021
    - This was a period of stable customer rates – strong origination growth in Prime over this period caused our average customer rate to reduce.
    - BBSW was low and our cost of funds were benefitting from positive market conditions.
    - However, from around Quarter 3 2021 we started to see heightened customer attrition – as banks rolled out fixed rate loans at 2 – 3% as they had funding benefit from the TFF injection made by the Government under COVID.

  - **From 2022** our cost of funds started to increase – as capital market conditions deteriorated, and measures implemented under COVID were rolled back.
    - Market uncertainty drove extreme volatility in BBSW - which rose from 1bps in 2021 to 132 bps in 2022.
    - On top of swap rates, competition amongst the banks for market share intensified – with extremely attractive rates as well as high levels of cash backs on offer.
    - This saw our customer attrition accelerate. And the customers we were losing were typically from pre COVID vintage – who were on higher rates.

  - The situation from mid-2022 was aggravated further by rising inflation – which the RBA sought to control via 10 consecutive rate rises from May 2022 to March 2023.

  - And while we increased customer rates when the RBA moved the OCR there is a constant need to balance between managing margin and causing higher customer attrition if customer rates increase too sharply.

- **But moving to the chart on the bottom which shows 2023 by quarter**
  - The price increases taken over the last 18 months are working through average customer rates.

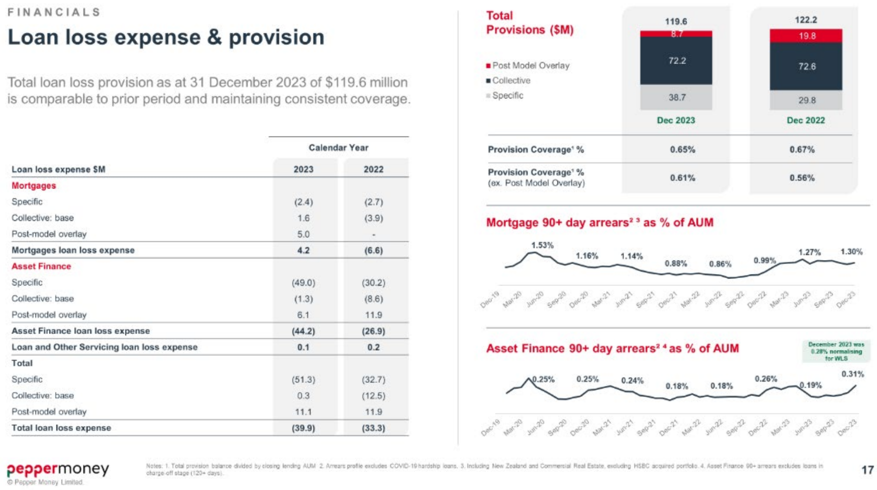
- While BBSW remained heightened over 2023, as we moved into 2024, we have seen stability start to return and the market now believes interest rate will not increase further.

- Likewise, we are starting to see funding margins improve – and as Mario noted PRS 39 which settled yesterday enjoyed the best rate we have achieved have since March 2022 for non-conforming mortgages

- So, as we exited 2023 – we started to see NIM stabilise, and the rate of compression did start to slow over Quarter 4.

- **Now onto our credit performance which is on slide 17:**

SLIDE NUMBER 17



- The performance of our portfolio continues to show the strength of our credit and underwriting processes.

- Total Credit expense increased by $(6.6) million in 2023 versus the prior comparable period.

- Given lower Originations over the last 18 months as well as elevated customer attrition – the reduction in Mortgage AUM resulted in a release to both Collective Provision and a reversal of $5.0 million of the Post Model Overlay. This has seen Mortgages report a debit for loss expense in 2023. We do continue to hold a $8.0 million provision in Post Model Overlay for Mortgages at year end, as we consider this to be correct as the full impact of interest rate rises, coupled with inflation, are still to be fully reflected in customer disposable income.

- Asset Finance Loss expense increased $(17.3) million when compared to 2022:
  - While strong AUM saw underlying **Collective Provisions** increase, a recalibration given higher portfolio mix from Novated Leasing - which attracts near zero losses as it's salary sacrificed - and provision release following the Whole Loan Sale completed in December 2023, saw Collective Provisions reduce by $7.3 million year on year.
  - **Specific losses** for Asset Finance increased given a marginal uplift in late stage arrears over Quarter 4, coupled with the increase in insolvencies - as Government protections implemented under COVID-19 were removed at the start of the year. Insolvency trends have now reverted to pre-COVID 19 averages.
  - And over 2023 we further released $6.1 million of COVID-19 and other related **Post model overlays** in Asset Finance.

- At the end of December, we have total provisions of $119.6 million. Adjusting for Post Model Overlays we have a coverage ratio of 0.61% of Assets under Management, up from 0.56% as at December 2022, reflecting both AUM growth in Asset Finance partially offset by business mix.

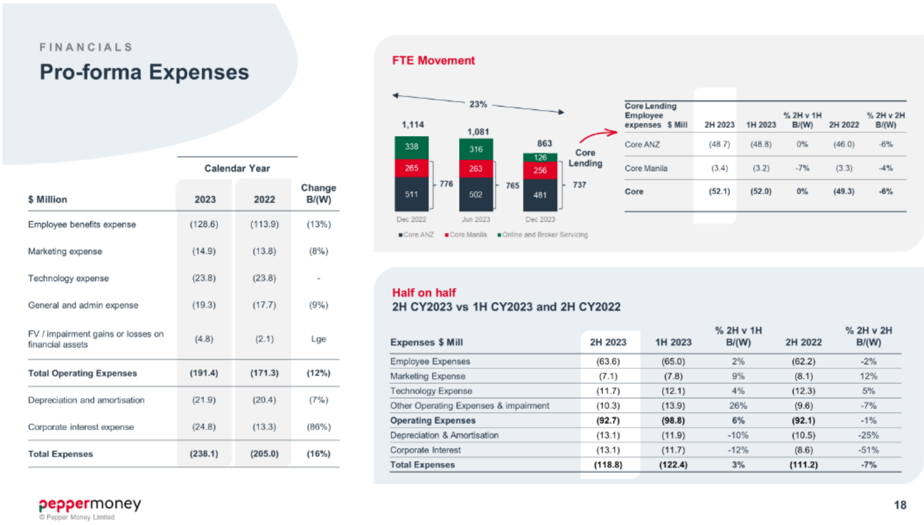
- Loan Losses as a percent of Lending AUM, excluding post model overlay, are 0.28% and continued to be inside the long-term average. The business is well covered.

- And we continue to monitor early indications of potential future loss through the 90 plus days arrears – as per the charts on the bottom right-hand side.
    - 90 plus days arrears, for our Mortgage portfolio at 1.3 percent is well inside the long-term average of about 1.45 per cent.
    - And for Asset Finance, the provision release taken following the Whole Loan Sale in December, as loans sold were skewed to Tier A customers, distorts the December position. Adjusting for the Whole Loan Sale, 90+ days arrears for Asset Finance at year end were 0.28%.

- And at the end of the year we continue to hold Total Post Model Overlays of $8.7 million.

- **Turning to expense management on slide 18.**

SLIDE NUMBER 18



- **While Reported Pro-forma Operating Expenses** at $191.4 million, increased $(20) million on PCP and **Reported Pro-forma Total Expenses** at $238.1 million grew by (16)% - due to Corporate Interest expense - we need to look at the **underlying performance after normalising for Stratton** – which was only included in 2022 financials for 6 months.

- **Normalising** for Stratton, **Pro-forma Operating Expenses** grew (1)% on PCP, with Staff expenses increasing (3)%, Marketing reducing by 21% and Technology declining 9% year on year.

- **Normalised Pro-forma Total Expenses** grew (8)% on PCP given the increase in Corporate Interest of $(11.4) million as a result of movements in BBSY and higher drawdown of the corporate debt facilities.

- The ability of the business to manage costs and drive efficiency is demonstrated when comparing **second half 2023** expenses to **first half 2023** and to **second half 2022**, as all these periods include Stratton for the full 6 months.

- **Second half 2023 Pro-forma Operating Expenses** reduced by $(6.1) million, or 6%, when compared **to the first half of 2023.**
  - All Operating Expense lines realised savings half on half.
  - In a high inflation environment, disciplined cost management, benefits from investment in technology, processes and automation coupled with scaled growth in Asset Finance allowed the business to derive strong efficiencies.

- **Pro-forma Total Expenses** decreased by 5% over the same period, with the flow through of savings in our operating expenses partially offset by higher Corporate Interest expense.

- Probably the best way to see how the business has manage inflation is to look at **second half** 2023 expenses on **second half 2022**.

- Operating Expenses increase (1)% over this period, and while external wage inflation averaged around 3%, our Employee expenses only increased 2.

- **Our Core Lending FTE** reduced by 5%.

- Lower FTE coupled with a constant reinvestment rate has seen **Technology cost** reduce by 5% second half 2023 on second half 2022.

- Other Operating expenses include a one-off impairment of half a million, booked in the second half of 2023 – following a re-assessment of our equity investments.

- And while Operating Expenses reduced second half on second half, **Total Expenses** did increase by (4)%. This was due to increased Corporate Interest expense and new property leases – which drove Right of Use - increasing Depreciation and Amortisation by $(2.6) million.

- **Turning to our Pro-forma Income Statement on slide 19 of our Investor Presentation.**

SLIDE NUMBER 19

FINANCIALS

Pro-forma Profit & Loss

$ Million	Calendar Year 2023	Calendar Year 2022	Change B/(W)
Interest income	1,402.3	955.4	47%
Interest expense	(1,039.1)	(566.5)	(83%)
Net interest income from continuing operations	**363.2**	**388.9**	**(7%)**
Net lending fees	17.6	15.3	15%
Whole loan sales gain	11.9	8.2	45%
Loan losses	(39.9)	(33.3)	(20%)
Servicing fees and other income	37.4	29.1	29%
Total operating income from continuing operations	**390.1**	**408.2**	**(4%)**
Employee benefits expense	(128.6)	(113.9)	(13%)
Marketing expense	(14.9)	(13.8)	(8%)
Technology expense	(23.8)	(23.8)	-
General and administration expense	(19.3)	(17.7)	(9%)
Fair value losses on financial assets	(0.5)	(2.1)	76%
Impairment losses on financial assets	(4.3)	-	(100%)
EBITDA	**198.7**	**237.0**	**(16%)**
Depreciation and amortisation expense	(21.9)	(20.4)	(7%)
Corporate interest expense	(24.8)	(13.3)	(86%)
Profit before income tax from continuing operations	**152.0**	**203.2**	**(25%)**
Income tax expense	(40.9)	(61.2)	33%
Net profit after income tax from continuing operations	**111.1**	**142.0**	**(22%)**
Equity holders of Pepper Money Limited	*113.1*	*142.5*	(21%)
Non-controlling interest	*(2.0)*	*(0.5)*	*(300%)*

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- While the soft market conditions in Mortgages were partially offset by record growth in Asset Finance:
  - ongoing NIM compression,
  - coupled with increased Loan Loss expense given Asset Finance AUM growth,
  - and the annualisation of Stratton on operating expenses.

- All contributed to EBITDA at $198.7 million, contracting (16)% on PCP.

- When we add to EBITDA:
  - the increase in depreciation and amortisation which I have just covered;
  - and the adverse impact of movements in BBSY on Corporate Interest expense.

- Pro forma NPAT of $111.1 million, contracted (22)% on PCP

- And our Statutory NPAT at $108.7 million contacted (23)% on 2022.

SLIDE NUMBER 20

FINANCIALS

Pro-forma Metrics

	Calendar Year 2023	Calendar Year 2022	Change B/(W)
Volume ($ Billion)			
Originations – Mortgages	3.9	6.8	(43%)
Originations – Asset Finance	3.4	2.8	20%
Total Originations	**7.3**	**9.6**	**(24%)**
AUM lending – Mortgages	12.6	13.5	(7%)
AUM lending – Asset Finance	5.7	4.7	21%
AUM lending	**18.3**	**18.2**	**0%**
AUM servicing	**1.4**	**1.0**	**43%**
Total AUM	**19.7**	**19.2**	**3%**
Income ($ Million)			
Operating income – Mortgages	214.7	246.8	(13%)
Operating income – Asset Finance	166.2	149.6	11%
Operating income – Loan and Other Servicing	7.3	11.0	(34%)
Operating income – Corporate	1.8	0.7	147%
Total operating income	**390.1**	**408.2**	**(4%)**
Profitability			
Net interest margin[1] – Mortgages	1.77%	1.98%	(21bps)
Net interest margin[1] – Asset Finance	2.50%	2.91%	(41bps)
Total net interest margin[1]	**2.00%**	**2.20%**	**(20bps)**
Employee benefits expense / Total operating income	33%	28%	(5%)
Employee cost per average FTE ($'000)	125.7	105.0	(20%)
Cost-to-income ratio[2]	55%	46%	(9%)
Credit Quality			
Total losses[3] (ex. Overlay[4])% AUM lending – Mortgages	0.01%	0.05%	4bps
Total losses[3] (ex. Overlay[4])% AUM lending – Asset Finance	0.92%	0.80%	(12bps)
Total losses[3] (ex. Overlay[4])% AUM lending	**0.28%**	**0.22%**	**(6bps)**
Return			
Total operating income yield	**2.2%**	**2.3%**	**(0.1%)**

Notes: 1. Twelve months to December 2023 and December 2022 net interest income divided by average lending AUM for the relevant period. 2. Cost To Income ratio defined as: Total Operating Expenses (including depreciation, amortisation and corporate interest) divided by Total Operating Income before loan losses. 3. Twelve months to December 2023 and December 2022 loan loss expense divided by average lending AUM for the relevant period. 4. Post Model Overlay

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- For completeness I provided our core metrics on slide 20 which we have already been covered off.

- **So turning to the balance sheet on slide 21.**

SLIDE NUMBER 21

$ Million Balance as at	31 Dec 2023	31 Dec 2022
Assets		
Cash and cash equivalents	1,528.7	1,243.6
Receivables	21.2	10.3
Loans and advances	18,379.4	18,327.8
Derivative financial assets	52.4	134.0
Other financial assets	19.2	19.4
Other assets	12.0	9.0
Deferred tax assets	21.8	4.0
Property, plant and equipment	32.0	19.0
Goodwill and intangibles	141.0	152.3
Total assets	**20,207.7**	**19,919.4**
Trade payables	17.1	13.4
Current tax	9.5	24.5
Provisions	23.6	24.8
Borrowings	19,257.0	18,979.2
Derivative liabilities	4.0	3.3
Other liabilities	33.7	22.8
Deferred tax liabilities	-	10.1
Total liabilities	**19,344.9**	**19,078.1**
Total net assets	**862.8**	**841.3**
Issued capital	729.8	729.6
Other reserves	50.0	99.8
Retained earnings	45.6	(27.5)
Total equity attributable to owners of Pepper Money Limited	**825.4**	**801.9**
Non-controlling interests	37.4	39.4
Total equity	**862.8**	**841.3**

- The main movement, as you would expect, has been in Loans and Advances which, at $18.4 billion for 31 December 2023, have followed the movement in AUM, including Whole Loan Sales, net of loan loss provisions.

- We originated $7.3 billion in new financial assets over 2023. Asset growth was financed by the issuance of seven Public Term securitisations of $5.4 billion, and a further $1.6 billion in Private Term securitisation and Whole Loan Sales.

- Given the soft Mortgage market we reduced warehouse capacity by (18)% to $9.3 billion at year end.

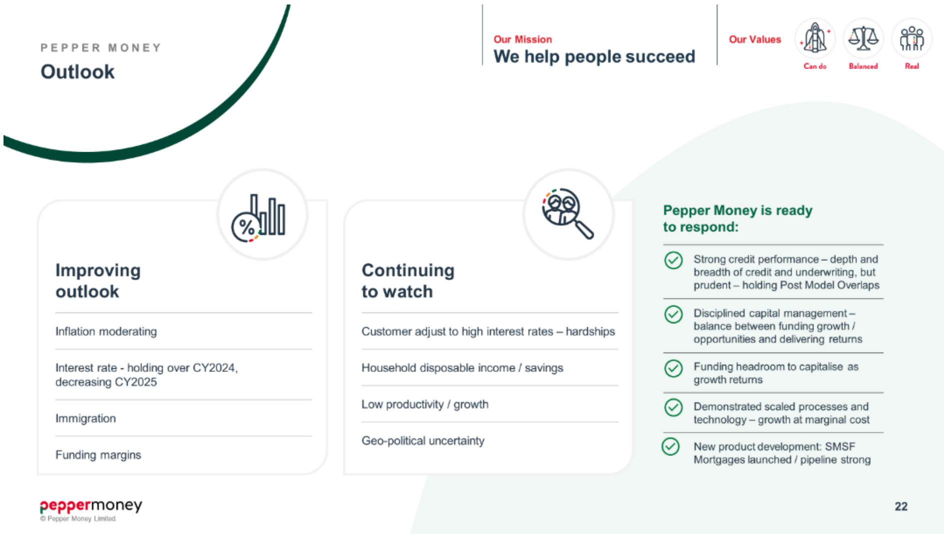
- Net Assets at 31 December 2023 grew 3% on 2022, with Cash and cash equivalents at the end of the year of $1.5 billion and unrestricted cash balances of $121.1 million up 6% on 2022 close.

- Retained earnings reflect the profit delivered by the business, net of dividend paid.

- 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.

- Thank you and I will now hand back to Mario to close.

SLIDE NUMBER 22



- Thanks Therese

- The start of 2024 has been encouraging:
    - inflation is moderating;
    - the rate of interest rate rises has slowed – hopefully stopped … and while I expect rates will be on hold over 2024 there are strong indications that from 2025 we may start to see rate reductions flow through;
    - immigration is a positive – it helps with economic growth and has always been a stimulus for housing demand;
    - and specifically for our business we are seeing funding margins start to come in – and as I mentioned before PRS 39 we settled yesterday at an average margin of 1.66% was well inside PRS 38, which settled in September 2023 at 1.93%.

- We continue to keep a close watch on customer arrears and hardships, as the flow through of rate rises is still being felt, and as inflation is still outside target range. Household disposable income has reduced – alongside savings ratios which are now just above 1% - from a peak of over 20% in June 2020, and versus the long-term average of 5%.

- While unemployment remains low – which is a positive – we do need to balance this with low productivity and growth.

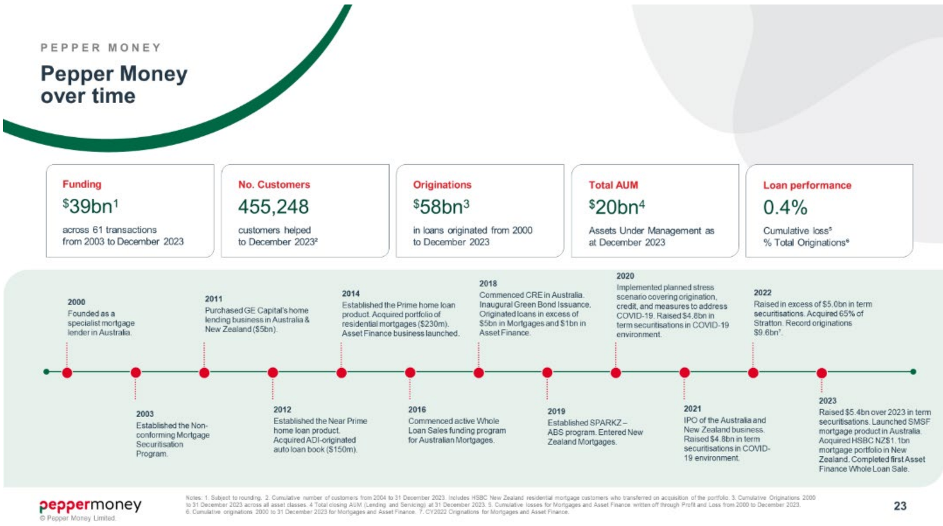
- And sadly, in today's world, geo-political uncertainty remains a constant.

- But even given these detractors, we as a business feel more confident as we enter 2024. And we are prepared to capture more opportunities as they become available.

- Over the 23 years we have been in business we have successfully managed through all cycles. Our credit performance remains strong: we have managed our customers through the rates rises, we have maintained the quality of our portfolios and we are well provisioned.

- Our technology and processes are scaled - and we have the funding headroom available. We are best positioned to capitalise on growth as it returns.

SLIDE NUMBER 23



- I would like to close by reflecting on the history of Pepper Money. We started over 23 years ago as a specialist mortgage non-bank lender in Australia.

- We have successful navigated the business through multiple economic cycles.

- We have built a business with strong core competencies in credit and underwriting, distribution, funding, data and technology.

- We are diversified, both in terms of the scale of our two-core lending businesses of Mortgages and Asset Finance, as well as the ever-expanding range of products we offer.

- But we are also disciplined: whether it be how we manage credit, expenses or capital.

- With $20 billion in Assets under Management today we remain strong and have the ability to capitalise on opportunities as they emerge.

- **Thank you and I will now hand back to the operator for questions.**

SLIDE NUMBER 24