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Response to anonymous report published on 21 June 2018

Yesterday, Credit Corp Group Limited (Credit Corp or the Company) requested that the Australian Securities Exchange (ASX) place a trading halt over shares in the Company pending the preparation of a response to an anonymous report (the Report).

The Report is not credible and Credit Corp requested the trading halt to avoid the prospect of the ASX imposing a temporary suspension. Credit Corp comprehensively rejects the assertions contained in the Report and now provides its response.

Credit Corp does not offer "payday loans"

The Australian Securities and Investments Commission (ASIC) has defined a "payday loan" in its report R426 published in March 2015 as a Small Amount Credit Contract (SACC). None of Credit Corp's loan products meet the definition of a SACC contained in the National Consumer Credit Protection Act 2009 (NCCP).

The structuring of repayments to coincide with a customer's pay cycle is a common practice adopted by many lenders, debt collectors and other operators in the credit market. It is not a practice unique to "payday lenders" and does not define a "payday loan".

Credit Corp competes with "payday lenders" to provide consumers with a better alternative. We aim to sustainably provide fast access and a simple on-line process at a fraction of the cost of a "payday loan".

The critical feature of a "payday loan" or SACC in Australia is the ability to circumvent the general interest rate cap applicable to all mainstream lending of 48% pa (this is defined in the NCCP as an Annual Cost Rate or ACR, and takes into account all fees and interest and is calculated as an all-inclusive effective interest rate).

"Payday lenders" structure their products as SACCs to take advantage of a higher cap applicable to such products. SACCs allow for flat fees of 20% up-front and 4% per month. A typical SACC is offered for a term of 62 days and at this duration the fee cap will produce an ACR of over 250% pa.

Credit Corp's loans feature a much longer duration than a "payday loan" and the repayments are a much smaller proportion of a customer's income.

Credit Corp is an ethical operator

Credit Corp's loan products are not SACCs because Credit Corp has chosen to operate within the general interest rate cap applicable to all mainstream lending. Credit Corp does not believe that rates above the general interest rate cap are sustainable and appropriate for any consumer.

Credit Corp is not exploiting any legal loophole or in any way acting unethically. Credit Corp has placed itself at a considerable economic disadvantage to competitors in order to provide consumers with access to a more sustainable product. By not taking advantage of the concessional cap applicable to SACCs and Medium Amount Credit Contracts (MACCs) Credit Corp is foregoing considerable revenue which could otherwise be applied to additional marketing expenditure and more relaxed lending standards.

Credit Corp is a responsible lender

Credit Corp practices responsible lending. Our approval process features comprehensive inquiry and verification to ensure that repayments are affordable. Our process meets and exceeds legal requirements.

We encourage applications from all consumers and will only screen out applicants if they are under 18 years old or are not a permanent resident. Our highly efficient process means there is no reason to discourage consumers from applying.

The Report confuses our encouragement of applications with our loan approval criteria. The fact that we encourage applications from a wide population says nothing about the individuals we approve.

For example, Credit Corp encourages applications from consumers receiving government benefits. This is because more than half of all Australian households receive government benefits in some form and most of these households also receive significant income from other sources. Only a fraction of applicants receiving a substantial proportion of their income through such benefits will receive a loan from Credit Corp.

Credit Corp manages its business not its accounting records

Credit Corp employs a highly disciplined approach involving a focus on investment returns and a reliance on managed organic expansion. This has naturally produced consistent income statement outcomes.

All Purchased Debt Ledger (PDL) and lending investments are subject to approval criteria which are set to deliver a return on equity in the range of 16% to 18% at a low rate of gearing. We do not seek to make excessive returns and regardless of market conditions we look to provide our debt purchase clients and lending customers with the best prices possible while still meeting our return criteria. A focus on consistent returns has produced consistent outcomes.

Credit Corp has always targeted strong long-term earnings growth while meeting our stated return criteria. Achieving this has required a pipeline of organically developed new business initiatives at various stages of maturity. These new businesses have historically included the commencement of cash lending in Australia and debt purchasing in the USA. Both businesses sustained losses for a number of years before achieving profitability. The expansion of these businesses has been managed in order to ensure that the company has been able to meet both its short and long term earnings expectations. Managed expansion has produced consistent outcomes.

For example, strong performance from the core Australian and New Zealand debt purchasing operation in FY2014 allowed more rapid expansion of the lending business in the same year. That rapid expansion produced a transition to profitability in FY2015 which helped supplement more modest growth in the core business in that year.

The amortisation of Credit Corp's PDLs reflects both the consistent application of our return criteria and our long history of purchasing.

The consistent application of the same return criteria should produce a consistent rate of amortisation with volatility in purchasing volume in response to market conditions. This is reflected in Credit Corp's results with increases and decreases in purchasing volumes over the past ten years.

The Report makes selective reference to the two large US operators, PRA Group and Encore Capital Group. These long-standing operators are not included the analysis of amortisation rates and implicit collection multiples. Like Credit Corp, the collection multiples implied by the rates of amortisation reported by these peers over the last four years have not varied by more than 5%.

Loan loss provisions reflect the management of approval criteria

Management discipline will result in loan loss provision expense which is a relatively consistent proportion of lending revenue over time.

Lending approval criteria are subject to constant adjustment in line with observed loss experience. The constant management of lending criteria for a relatively short-duration loan book will result in consistent loss provision expense over time.

Loss provisions are best analysed as a proportion of the loan book. The following table shows a higher provision in the early years of the loan book while we were still developing our lending criteria. The provision has been a relatively stable percentage of the loan book over recent years. Any manipulation of loan loss provision expense would produce unexplained variations in the provision.

$m	FY14	FY15	FY16	FY17
Gross Consumer Lending book	$63.2	$99.7	$135.1	$160.5
Loss provision %	**26.4%**	**20.3%**	**18.2%**	**18.5%**

Credit Corp does not capitalise expense items

Despite having the ability to do so under Australian Generally Accepted Accounting Principles ("AGAAP") Credit Corp does not capitalise and defer expense items.

Credit Corp does not capitalise any acquisition or transaction costs into PDL and loan balances. All PDLs are brought to account at only the amount payable to the vendor. All loans are brought to account at only the amount disbursed to the borrower.

Credit Corp does not carry any capitalised litigation, marketing or software expenses.

Credit Corp has not reclassified assets

The Company's FY2016 consumer loan balance was $110.4 million net of provisions and the PDL balance was $253.3 million. This is consistent with the FY2016 full year results presentation, balance sheet and financial statement notes 10 and 11. There was no reclassification of assets.

Credit Corp's USA business segment reporting is accurate

The analysis contained in the Report is erroneous.

Statutory disclosure of Net Profit after Tax (NPAT) for companies included within the deed of cross guarantee includes intercompany loan interest income. These intercompany amounts are eliminated upon consolidation of the Company's USA entities and are rightly excluded for business segment reporting purposes.

Banking facilities

The Company maintains two bank facilities totalling $300 million, of which $100 million remains undrawn. These comprise of a corporate facility of $215 million expiring in July 2020 and a securitised warehouse facility of $85 million expiring in June 2021. The securitised warehouse facility is subject to a run-off period to June 2023.

The securitised warehouse is a non-recourse facility secured over the Company's cash loan book. This was established in June 2017 after an extensive due diligence process, including detailed reference to the financier's sustainability and social responsibility policies.

Credit Corp notes that a competitor providing SACCs at a discount to the SACC fee cap, but still a significant premium to Credit Corp's charges, is funded by a major Australian bank on a charitable basis as part of a social responsibility initiative. Credit Corp provides a superior consumer proposition.

Strong outlook

The Company is experiencing strong operational performance over the final quarter and re-affirms its FY2018 market guidance as summarised below. The guidance reflects NPAT growth in FY2018 of up to 16% and the company is on track for continued growth in FY2019.

	Updated guidance (Jan -18)
PDL acquisitions	$190 - $200m
Net lending volumes	$35 - $45m
NPAT	$62 - $64m
EPS	130 - 134 cents

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