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## **Pepper Group advises of BIS capital ratio increases required by Regulator in South Korea**

Pepper Group wishes to advise that the South Korean regulator, the Financial Supervisory Service (FSS) has required that all South Korean Mutual Savings Banks with total assets of more than One Trillion Won (approx. AUD \$1.1bn) must increase their BIS Capital ratios (BIS ratio) to be at least 8% effective 1 January 2018.

Pepper Group's South Korean Mutual Savings Bank, Pepper Savings Bank, is impacted by these changes and has recently agreed a Memorandum of Understanding with the FSS in respect of Pepper Savings Bank's required BIS ratio.

Under the Memorandum of Understanding, Pepper Savings Bank will increase its BIS ratio to at least 9% by 31 December 2017, and then increase further to at least 10% by 30 June 2018, as a 2% buffer above the 8% required of Mutual Savings Banks generally.

As at 31 August 2017, the BIS ratio for Pepper Savings Bank was 8.32%.

Pepper Group has a number of options available to it to manage the capital requirements in its Pepper Savings Bank including, but not limited to organic capital generation and balance sheet management transactions. While the timetable for the transition from 8% to 10% is considered manageable, Pepper Group expects that it will be required to contribute additional capital to Pepper Savings Bank, which continues to see strong growth in its lending book. It is likely that such capital contributions will result in an increase to the \$150m in future Pepper Group capital requirements that were advised to the market on 25 August 2017.

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