Pepper I-Prime 2017-3 Trust

ABN 92 963 376 692

Special purpose financial statements - *31 December 2020*

Pepper I-Prime 2017-3 Trust

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Special purpose financial statements - 31 December 2020

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Trust Manager's declaration

As detailed in Note 1 to the financial statements, Pepper I-Prime 2017-3 Trust (the Trust) is not a reporting entity because in the opinion of the Trust Manager there are unlikely to exist users of the financial statements who are unable to command the preparation of statements tailored so as to satisfy specifically all of their information needs. Accordingly, the “special purpose financial statements” have been prepared to satisfy the reporting requirements of the Trust Manager and Trustee in accordance with the Master Trust Deed.

The Trust Manager has prepared the attached financial statements and notes thereto as set out on pages 3 to 15.

The Trust Manager declares that the financial statements and notes:

(a) comply with applicable accounting standards as detailed in Note 1 (b) Statement of Compliance; and

(b) give a true and fair view of the financial position and performance of the Trust.

In the Trust Manager’s opinion:

(a) the attached financial statements and notes thereto are in accordance with the Master Trust Deed; and

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

This report is made in accordance with a resolution of directors.

Mario Rehayem
Chief Executive Officer
Sydney
9 June 2021

Pepper I-Prime 2017-3 Trust
Statement of comprehensive income
Year ended 31 December 2020

	Year ended 31 December 2020 $	Year ended 31 December 2019 $
Revenue		
Loans and advances interest income	**8,835,572**	13,343,404
Bank interest income	**48,174**	114,892
Borrowings interest expense	**(4,262,197)**	(8,538,701)
Net interest income	**4,621,549**	4,919,595
Fee income	**111,483**	153,397
Total income	**4,733,032**	5,072,992
Expenses		
Servicer fees	**528,667**	706,673
Loan enforcement costs	**13,162**	32,806
Trustee fees	**42,557**	65,981
Trust manager fees	**211,467**	283,749
Custodian fees	**4,496**	11,971
Non-recoverable GST	**20,405**	27,607
Loan loss expense	**285,205**	145,866
Bank charges	**8,143**	21,943
Other expenses	**25,062**	44,652
Total operating expenses	**1,139,164**	1,341,248
Profit before income tax expense	**3,593,868**	3,731,744
Finance costs attributable to unitholders		
Distributions to unitholders	**(3,593,868)**	(3,731,744)
Profit after income tax expense for the year attributable to the unitholders	**-**	-
Other comprehensive income	**-**	-
Total comprehensive income for the period	**-**	-

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Pepper I-Prime 2017-3 Trust
Balance sheet
As at 31 December 2020

		As at	
		31 December 2020	31 December 2019
	Notes	**$**	$
Assets			
Cash and cash equivalents		**5,486,236**	9,696,769
Loans and advances	6	**178,371,112**	239,118,824
Receivables		**13,328**	18,560
Total assets		**183,870,676**	248,834,153
Liabilities			
Borrowings	7	**183,102,440**	247,639,400
Other payables		**768,106**	1,194,623
Unitholders interest		**130**	130
Total liabilities		**183,870,676**	248,834,153
Equity			
		-	-

The above balance sheet should be read in conjunction with the accompanying notes.

Pepper I-Prime 2017-3 Trust
Statement of changes in equity
Year ended 31 December 2020

	Issued capital $	Retained earnings $	Total $
Balance at 1 January 2019	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**
Balance at 31 December 2019	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**
Balance at 31 December 2020	**-**	**-**	**-**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Pepper I-Prime 2017-3 Trust
Statement of cash flows
Year ended 31 December 2020

	Notes	**Year ended 31 December 2020 $**	Year ended 31 December 2019 $
Cash flows from operating activities			
Interest received		**9,019,751**	13,666,480
Interest paid		**(4,373,135)**	(11,982,663)
Fee income		**111,483**	153,397
Payments to suppliers		**(877,334)**	(1,204,977)
Collection of net loans to borrowers		**60,326,502**	78,938,058
Net cash inflow from operating activities	5	**64,207,267**	79,570,295
Cash flows from financing activities			
Repayment of borrowings		**(64,426,022)**	(75,428,766)
Distribution to noteholders		**(3,991,778)**	(961,650)
Net cash outflow from financing activities		**(68,417,800)**	(76,390,416)
Net (decrease)/increase in cash and cash equivalents		**(4,210,533)**	3,179,879
Cash and cash equivalents at the beginning of the year		**9,696,769**	6,516,890
Cash and cash equivalents at the end of the year		**5,486,236**	9,696,769

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 About this report

(a) Financial reporting framework

The Trust is not a reporting entity because in the opinion of the Trust Manager there are unlikely to exist users of the financial statements who are unable to command the preparation of the reports tailored so as to satisfy specifically all of their information needs. Accordingly, these ‘special purpose financial statements’ have been prepared to satisfy the Trust Manager’s reporting requirements under the Master Trust Deed.

(b) Statement of compliance

An entity preparing special purpose financial statements is not required to comply with the disclosure requirements of all Australian Accounting Standards and Interpretations. Accordingly, special purpose financial statements cannot be described as complying with Australian equivalents to International Financial Reporting Standards (A-IFRS) as they do not comply with all requirements of A-IFRS.

The financial statements have been prepared in accordance with the Master Trust Deed, recognition and measurement requirements of all Australian Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 ‘Presentation of Financial Statements’, AASB 107 ‘Statement of Cash Flows’ and AASB108 ‘Accounting Policies, Changes in Accounting Estimates and Errors'.

They were authorised for issue by the Trust Manager on 9 June 2021.

(c) Basis of preparation

The Trust Manager intends to liquidate the Trust in the next 12 months and therefore the financial report has been prepared on a liquidation basis. Accordingly, the Trust’s assets have been recorded at realisable value and the liabilities have been recorded at their contractual settlement amounts. All amounts are presented in Australian dollars, unless otherwise noted.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following notes.

(a) Distributions

Distributions to the beneficiary comprise the net Trust income of the Trust in accordance with the relevant Series Notice and the Master Trust Deed.

(b) Transfers to / from unitholders’ funds

Income is transferred directly to the residual unit holders’ funds and arises from the taxable income of the Trust.

2 Significant accounting policies (continued)

(c) Revenue recognition

The accounting policies adopted for the major components of revenue are as follows:

(i) Interest income

Loans and advances are measured on an amortised cost basis in the balance sheet. Revenue is generally recognised over the life of the loan, taking into account all income and expenditure directly attributable to the loan. The rate at which revenue is recognised is referred to as the effective interest rate and is equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan. The revenue stream includes interest revenue, mortgage risk fees received at loan settlement, loan premium revenue and early termination interest adjustments payable upon early redemption of a loan. Acquisition costs such as upfront broker commissions paid are also spread across the expected life of the loan. When a financial asset is classified in Stage 3 for impairment, subsequent interest income is recognised in profit or loss by applying the effective interest rate to the net carrying amount of the financial asset.

(ii) Fee income

The key judgements in applying AASB 15 include the timing and amount of variable consideration (at a point in time or over time) to be recognised in relation to fees earned and determining whether multiple services provided in a single servicing contract are distinct. The material components of fee income include those fees such as arrears fees and legal fees that do not meet the criteria for recognition as part of the effective interest rate. Fees that relate to a provision of a specific transactional service are recognised when the service has been completed. Prior to the adoption of AASB 15, revenue was recognised in the period in which it was earned. There was no material impact from the change in accounting policy (to AASB 15) on other fee revenue.

(d) Financial assets and financial liabilities

(i) Financial assets

The three classification categories for financial assets are amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVTPL').

(A) Amortised cost
A financial asset is measured at amortised cost if both the following conditions are met:

• The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
• The contractual terms of the financial asset give rise on specified dates to cash flows that meet the solely payments of principal and interest ('SPPI') requirements.

(B) Fair value through profit or loss
Financial assets that are not measured at amortised cost or at FVOCI are measured at FVTPL.

(C) Fair Value through other comprehensive income
The Trust does not hold assets at FVOCI.

(ii) Financial liabilities

Financial liabilities are measured at amortised cost except for financial liabilities designated at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.

(iii) Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, amounts receivable from contracts with customers as defined in AASB 15, loan commitments, certain letters of credit and financial guarantee contracts.

The expected credit loss ('ECL') values are derived from internally developed statistical models and are adjusted to reflect probability-weighted forward-looking information. The Trust’s loan portfolios are segmented (at a minimum) by product, region, and credit quality (arrears), to calculate ECL provisions.

2 Significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

(iii) Impairment (continued)

The key inputs used for measuring ECL are:

• probability of default ('PD');
• loss given default ('LGD'); and
• exposure at default ('EAD').

PD is an estimate of the likelihood of default over a given time horizon. The Trust’s PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to consider estimates of future conditions that will impact PD. LGD is an estimate of the loss arising on default. The LGD models for secured assets consider forecasts of future collateral valuation considering sale discounts, time to realisation of collateral, cost of realisation of collateral and cure rates. LGD models for unsecured assets consider time of recovery, and recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the interest rate of the loan.

EAD is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest. The Trust’s modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, including: amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Trust uses EAD models that reflect the characteristics of the portfolios.

The Trust uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Trust employs experts who use external and internal information to generate a ‘base case’ scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Trust has identified and documented key drivers of credit risk and credit losses for each loan portfolio and using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The principal macro-economic indicators included in the economic scenarios used at 31 December 2020 for the purposes of preparing ECL provisions include unemployment rates, interest rates, house prices ('HPI') and inflation ('CPI').

The Trust has applied probabilities to the forecast scenarios identified in its measurement of ECL.

The Trust's ECL is determined with reference to the following stages:

<u>Stage 1:</u>
Performing loans:
Predominantly loans less than 30 days past due - requires a loss provision equal to the expected loss over the next 12 months.

<u>Stage 2:</u>
Significant increase in credit risk has occurred:
All the Trust's loans and advances not in Stage 3 and 30+ days in arrears are within Stage 2 - requires a loss provision equal to the expected loss over the expected lifetime of the asset.

<u>Stage 3:</u>
Impaired:
As a minimum, all the Trust's loans and advances 90+ days in arrears are within Stage 3. Loans in Stage 3 require a lifetime expected credit loss provision incorporating a 100% probability of default.

2 Significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

(iv) Modified financial asset and financial liabilities at amortised cost

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated loan is substantially different from the existing financial instrument. When the modification does not result in derecognition, a gain or loss is recognised in the income statement as the difference between the financial instrument's original contractual cash flows and the modified cash flows discounted at the original effective interest rate ('EIR').

(v) Derecognition

The Trust derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Trust neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Trust recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Trust retains substantially all the risks and rewards of ownership of a transferred financial asset, the Trust continues to recognise the financial asset and also recognises a borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the income statement.

On derecognition of a financial asset other than in its entirety the Trust allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in the income statement. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to a known amount of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

(f) Receivables

Trade and other receivables are stated at their amortised cost less impairment losses. Trade and other receivables are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

(g) Interest-bearing liabilities

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. Interest is accrued over the period it becomes due. After initial recognition, interest bearing loans and borrowings are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. All borrowings are secured by loans and advances.

(h) Trade and other payables

These amounts represent unsecured liabilities for goods and services provided to the Trust prior to the end of the financial year which are unpaid. Payables are stated at amortised cost.

2 Significant accounting policies (continued)

(i) Trust Manager and servicer fees

In consideration for performing the Trust Manager and Servicer functions and duties in respect of the Trust, the Trust Manager and Servicer, Pepper Money Limited (formerly Pepper Group Pty Limited), is paid a fee from the Trust as set out in the Trust Manager and Servicer Fee Letter.

(j) Loan enforcement costs

In order to enforce the mortgage or preserve its rights under the loan, the Trust will incur from time to time legal and enforcement related expenses. These expenses are passed on to the borrower under the term of the loan and are recovered through the discharge or claim process. The amounts applied to the loan account are recognised as income (refer to 2(c)). The amounts paid to suppliers are recognised as an expense of the Trust.

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(l) Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. The nature of the loan notes, as set out in the Master Trust Deed, is in accordance with the nature of debt and therefore, has been classified as debt. Amounts due to and from residual unit holders are classified within other payables.

3 New accounting standards and interpretations

(a) New and amended standards adopted

There have been no new or amended accounting standards during the reporting period ended 31 December 2020 that have had or may have a significant impact on the financial results of the Trust.

4 Critical estimates, judgements and errors

The preparation of financial statements requires the use of judgement, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values may change, impacting the net assets and income of the Trust. These estimates and assumptions are reviewed on an ongoing basis. The nature of significant estimates and judgements made are noted below.

(a) Determination of impairment losses on loans and advances

The Trust assesses at each balance date whether there is any objective evidence of impairment. In determining whether objective evidence exists and whether an impairment loss should be recorded in the income statement, the Trust makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a loan before the decrease can be identified within an individual loan. Such evidence may include payment defaults, increased historic loss rates and trends in the relevant industry or market.

Significant increase in credit risk: ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. AASB 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Trust takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Models and assumptions used: The Trust uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

The following are key estimations that are expected to have the most significant effect on the amounts recognised in financial statements:

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, considering cash flows from collateral.

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Trust uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

(b) Revenue recognition

Measurement of financial instruments at amortised cost using the effective interest rate method requires calculations based on reliably estimated cash flows through the expected life of financial instruments incorporating behavioural modelling of prepayments. Any fee income accounted for using the effective interest rate method is assessed by management who apply judgement to ensure recognition in the most appropriate period.

AASB 15 requires the identification of performance obligations within a customer contract and a transaction price that is allocated to these obligations. Revenue is recognised upon satisfying these performance obligations. Key judgement is required to determine if fee income is recognised over time or a point in time.

5 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended 31 December 2020 $	Year ended 31 December 2019 $
Profit before income tax expense for the year	**3,593,868**	474,726
Change in operating assets / liabilities		
Decrease in loans and advances	**60,747,712**	79,292,108
Decrease in receivables	**5,232**	5,405
Decrease in other payables	**(28,607)**	-
Decrease in interest accrued on borrowings	**(110,938)**	(201,944)
Net cash inflow from operating activities	**64,207,267**	79,570,295

6 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are held to collect and carried at amortised cost using the effective interest rate method.

Loans and receivables which are acquired are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost and interest income is recognised in the income statement using the effective interest rate method. Transaction costs include broker fees and commissions capitalised on the balance sheet as part of loans and advances. These costs are amortised to the income statement in line with the reduction in the underlying mortgage portfolio as part of the effective interest rate on the mortgage receivables.

6 Loans and advances (continued)

	As at	
	31 December 2020	31 December 2019
	$	$
Loans and advances	**178,530,848**	238,886,970
Accrued interest	**288,733**	424,738
	178,819,581	239,311,708
Opening balance of collective impairment provision	**(192,884)**	(162,505)
Adjusted balance	**(192,884)**	(162,505)
Collective impairment provision (provided for) during the period	**(255,585)**	(30,379)
	(448,469)	(192,884)
Total	**178,371,112**	239,118,824

7 Borrowings

	As at	
	31 December 2020	31 December 2019
	$	$
Note Class A-1	**122,032,459**	171,779,835
Note Class A-2	**30,992,371**	43,626,624
Note Class B	**11,110,782**	12,000,000
Note Class C	**6,481,289**	7,000,000
Note Class D	**5,092,442**	5,500,000
Note Class E	**3,240,645**	3,500,000
Note Class F	**1,703,594**	2,000,000
Note Class G1	**1,200,000**	1,200,000
Note Class G2	**800,000**	800,000
AOFM Program	**326,855**	-
Interest Accrual	**122,003**	232,941
Total	**183,102,440**	247,639,400

Australian Office of Financial Management ("AOFM") Forebearance Program

The AOFM, as part of the Federal Government’s response to the impact of COVID-19 on the ability of borrowers to continue to make their monthly loan payments, has created the AOFM forbearance SPV ("fSPV"), which is a single SPV funded by the AOFM through the $15b Structured Finance Support Fund ("SFSF"). The fSPV is designed to allow participant originators (which includes non-bank originators and smaller ADI’s) to access temporary liquidity support for COVID-19 hardship related missed interest payments on loans and other receivables, reimbursing this liquidity support from future trust residual income. The fSPV caters for multiple asset classes at the discretion of the AOFM and which currently includes residential and commercial real estate mortgage loans. It is operated by a third-party trustee, security trustee, manager, standby manager and collateral verification agent.

7 Borrowings (continued)

In 2020, the Trust accessed the fSPV through eligible drawings. The drawings together with interest accrued, is required to be repaid by the Trust over a 5 year period (in the case of mortgage loans) or 3 year period commencing in April 2021.

During 2020, the AOFM through its SFSF program, made available to smaller lenders (non-banks and small ADI's) a fSPV which enables Participating Originators to draw 90% of missed interest payments on account of loans in COVID-19 hardship. Pepper Money Limited actively worked with the AOFM and was approved by the AOFM for participation in the program with an aggregate facility amount of $50m. Pepper Money Limited considers the program an example of strong Government support to the non-bank sector, which provides a flexible and efficient source of fairly priced cash flow to replace the majority of deferred interest payments.

As at 31 December 2020, the Trust;
• applied and gained access to the fSPV and the Trusts became Participating Trusts; and
• had obtained $0.33m from the fSPV in relation to Eligible Missed Payments.

Interest is charged at a fixed rate of 5% on the drawn down portion of the facility. The difference between a market rate for an instrument with similar terms and conditions at inception, and the 5%, is recognised as government grant, presented as part of the liability and has a value of $26,690 at 31 December 2020. The net interest charge is presented within interest expense.

Pepper Money Limited maintains a schedule of aggregate drawing amounts for each participating facility under the AOFM program. When required a Reimbursement Amount Assumption deed is entered into by the Participating Originator, disposing Trust Obligor and Assuming Trust Obligor to ensure no cross collateralisation of eligible drawings.

8 Establishment

The Trust was established on 14 November 2017. Under the Series Notice, Pepper Money Limited is the beneficiary of the Trust.

Pepper Money Limited is Trust Manager and Servicer.
Pepper Finance Corporation Limited is Trustee.
BNY Trust Company of Australia Limited is Security Trustee and Custodian.

9 Additional information

Pepper Money Limited, a company incorporated and operating in Australia, is the Trust Manager, residual unit holder and parent of the Pepper I-Prime 2017-3 Trust.

The principal activities of the Trust in the course of the financial period were the management of residential mortgage loans using funds raised from the note holders.

10 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the balance sheet as at 31 December 2020 or on the results and cash flows of the Fund for the year ended on that date.

Deloitte.

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Independent Auditor's Report to the Trustee of Pepper I-Prime 2017-3

Opinion

We have audited the financial report being a special purpose financial report of Pepper I-Prime 2017-3 (the "Entity") which comprises the balance sheet as at 31 December 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Trust Managers Declaration as set out on pages 2 to 15.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Entity's financial position as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with the Master Trust Deed and the accounting policies described in Note 2.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared to assist the Entity to meet the financial reporting requirements of the Master Trust Deed. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the Trustee and should not be distributed or used by parties other than the Trustee. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Basis of Preparation

We draw attention to Note 1 (c) to the financial report, which describes that the Trust manager intends to liquidate the Trust in the next 12 months and therefore the financial report has been prepared on a liquidation basis.

Responsibilities of the Trust Manager for the Financial Report

The Trust Manager of the Entity is responsible for the preparation and fair presentation of the financial report and has determined that the basis of preparation and accounting policies described in Note 2 to the financial report is appropriate to meet the requirements of Master Trust Deed and is appropriate to meet the needs of the Trustee. The Trust Manager's responsibility also includes such internal control as the Trust Manager determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Trust Manager is responsible for assessing the ability of the Entity to continue as a going concern. As disclosed in Note 1(c), the financial report has been prepared on non-going concern basis because the Trust Manager intends to liquidate the Trust in the next 12 months.

The Trust Manager is responsible for overseeing the Entity's financial reporting process.

Deloitte.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trust Manager.

- Conclude on the appropriateness of the Trust Manager's use of the non-going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trust Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Delarey Nell
Partner
Chartered Accountants
Sydney, 9 June 2021