PROSPECTUS

Pepper Group Limited
ACN 094 317 665

INITIAL PUBLIC OFFERING OF ORDINARY SHARES

Financial Adviser:

HIGHBURY PARTNERSHIP

Joint Lead Managers:

Goldman Sachs

MACQUARIE

IMPORTANT NOTICES

Offer

The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in Pepper Group Limited (ABN 55 094 317 665) (the **Company**) (**Shares**). This Prospectus is issued by the Company and Pepper SaleCo Pty Limited (ACN 606 618 768) (**SaleCo**).

Lodgement and listing

This Prospectus is dated 17 July 2015 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date. None of ASIC, the Australian Securities Exchange (**ASX**) or their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. The Company will apply within seven days after the date of this Prospectus to ASX for listing of the Company and quotation of the Shares on ASX.

Expiry Date

This Prospectus expires on the date that is 13 months after the date of the Prospectus (**Expiry Date**). No Shares will be issued or transferred on the basis of this Prospectus after the Expiry Date.

Note to Applicants

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation and particular needs (including financial and taxation issues) of any prospective investor.

It is important that you read this Prospectus carefully and in full before deciding whether to invest in the Company. In considering the prospects of the Company, you should consider the risk factors that could affect the financial performance of the Company. You should carefully consider these factors in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest. Some of the risk factors that should be considered by prospective investors are set out in Section 4. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of the Company, the repayment of capital by the Company or the payment of a return on the Shares.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company, SaleCo, the Directors, the SaleCo Directors, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information in this Prospectus.

Exposure Period

The *Corporations Act 2001* (Cth) (**Corporations Act**) prohibits the Company and SaleCo from processing applications to subscribe for Shares under this Prospectus (**Applications**) in the seven day period after the date of lodgement of this Prospectus with ASIC (**Exposure Period**). The Exposure Period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act.

Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

Obtaining a copy of this Prospectus

This Prospectus is available to Australian investors, and certain eligible investors in other jurisdictions as specifically set out in the Prospectus, in electronic form at www.peppershareoffer.com.au. The Offer constituted by this Prospectus in electronic form at www.peppershareoffer.com.au is available only to persons within Australia and certain eligible investors in other jurisdictions as specifically set out in the Prospectus. It is not available to persons in other jurisdictions (including the United States) in which it would not be lawful to make such an offer or invitation. Persons having received a copy of this Prospectus in its electronic form may, before the Closing Date, obtain a paper copy of this Prospectus (free of charge) by telephoning the Pepper Offer Information Line on 1300 385 439 (inside Australia) or +61 3 9415 4383 (outside Australia) from 9.00am to 5.00pm Monday to Friday during the Offer Period. If you are eligible to participate in the Offer and are calling from outside Australia, you should call +61 3 9415 4383. Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus, or in its paper copy form which may be downloaded in its entirety from www.peppershareoffer.com.au. Refer to Section 6 for further information.

Statements of past performance

This Prospectus includes information regarding the past performance of the Company. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

Financial performance

Section 3 sets out in detail the Financial Information referred to in this Prospectus. The basis of preparation of the Financial Information is set out in Section 3.

All references to CY2012, CY2013, CY2014 and CY2015 appearing in this Prospectus are to the financial years ended or ending 31 December 2012, 31 December 2013, 31 December 2014 and 31 December 2015, respectively, unless otherwise indicated. The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by the Australian Accounting Standards (**AAS**). The Pro Forma Historical Financial Information and the Forecast Financial Information in this Prospectus should be read in conjunction with, and are qualified by reference to, the information contained in Sections 2 and 4.

All financial amounts contained in this Prospectus are expressed in Australian currency, unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

Forward-looking statements

This Prospectus includes forward-looking statements. These statements are based on present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place (including the key assumptions set out in Section 3). The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, are consistent with the basis of preparation and presentation for the Pro Forma Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

This Prospectus contains forward-looking statements which are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may", and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward-looking statements.

Any forward-looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. Such statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors (including the risks set out in Section 4), many of which are beyond the control of the Company, SaleCo, the Directors, the SaleCo Directors and Management. Forward-looking statements should therefore be read in conjunction with, and are qualified by reference to, risk factors as set out in Section 4, general assumptions as set out in Section 3, specific assumptions as set out in Section 3, the sensitivity analysis as set out in Section 3, and other information in this Prospectus.

The Company and SaleCo cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. The Company and SaleCo have no intention of updating or revising forward-looking statements, or publishing prospective Financial Information in the future, regardless of whether new information, future events or any other factors affect the information, contained in this Prospectus, except where required by law.

This Prospectus, including the overview of the Group in Section 2, uses market data, industry forecasts and projections. The Company and SaleCo have based some of this information on market research prepared by third parties. There is no assurance that any of the forecasts contained in the reports, surveys and any research of third parties which are referred to in this Prospectus, will be achieved. The Company and SaleCo have not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 4.

No cooling off rights

Cooling off rights do not apply to an investment in Shares issued under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Group. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

Company website

Any references to documents included on the Company's website at www.pepper.com.au or the Offer website www.peppershareoffer.com.au are for convenience only, and none of the documents or other information available on the Company's website is incorporated herein by reference.

Defined terms and time

Defined terms and abbreviations used in this Prospectus have the meanings given in the Glossary of this Prospectus. Unless otherwise stated or implied, references to times in this Prospectus are to the time in Sydney, Australia.

Disclaimers

Except as required by law, and only to the extent so required, none of the Company, SaleCo, the Directors, the SaleCo Directors, the Joint Lead Managers or any other person in connection with the Offer warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

As set out in Section 6.12, it is expected that the Shares will be quoted on ASX initially on a conditional and deferred settlement basis. The Company, SaleCo, the Directors, the SaleCo Directors, the Joint Lead Managers, the Company's service provider Computershare Investor Services (**Share Registry**), the Financial Adviser and the Existing Shareholders disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited have acted as Joint Lead Managers to the Offer. Neither Goldman Sachs Australia Pty Ltd nor Macquarie Capital (Australia) Limited has authorised, permitted or caused the issue or lodgement, submission, despatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by either of them or by any of their affiliates, officers or employees. To the maximum extent permitted by law, each of Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited and each of their respective affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, and make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

Selling restrictions

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

In particular, the Shares have not been, and will not be, registered under the *United States Securities Act of 1933* (as amended) (**US Securities Act**) or the securities laws of any state of the United States and may not be offered or sold in the United States unless the Shares are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and applicable US state securities laws is available.

See Section 8.12 for more detail on selling restrictions that apply to the offer and sale of Shares in jurisdictions outside Australia.

Privacy

By filling out the Application Form to apply for Shares, you are providing personal information to the Company and SaleCo through the Share Registry, which is contracted by the Company to manage Applications. The Company, SaleCo, the Joint Lead Managers and the Share Registry, may collect, hold, use and disclose that personal information to process and assess your Application, service your needs as a Shareholder, provide facilities and services that you need or request and carry out appropriate administration.

If you do not provide the information requested in the Application Form, the Company, SaleCo and the Share Registry may not be able to process or accept your Application. Your personal information may also be used from time to time to inform you about other products and services offered by the Company, which it considers may be of interest to you.

Your personal information may also be provided to the Company's members, agents and service providers on the basis that they deal with such information in accordance with the Company's privacy policy and applicable laws. The members, agents and service providers of the Company may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of Shareholders;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register of members. The information contained in the Company's register of members must remain there even if that person ceases to be a Shareholder. Information contained in the Company's register of members is also used to facilitate dividend payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements. An Applicant has a right to gain access to their personal information that the Company, SaleCo and the Share Registry hold about that person, subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing or by telephone call to the Company's registered office or the Share Registry's office, details of which are disclosed in the Corporate Directory. Applicants can obtain a copy of the Company's privacy policy by visiting the Company website (www.pepper.com.au). By submitting an Application, you agree that the Company and the Share Registry may communicate with you in electronic form or to contact you by telephone in relation to the Offer.

Offer management

The Offer is being arranged and managed and underwritten by Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited (other than the Employee Gift Offer, which is not underwritten).

Report on Directors' forecasts and financial services guide

The provider of the Investigating Accountant's Report is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act.

The financial services guide is provided in Section 7.

Questions

If you have any questions about how to apply for Shares, please call the Pepper Offer Information Line on 1300 385 439 (inside Australia) or +61 3 9415 4383 (outside Australia) from 9.00am to 5.00pm Monday to Friday during the Offer Period or contact your Broker. Instructions on how to apply for Shares are set out in Section 6 of this Prospectus and on the back of the Application Form. If you have any questions about whether to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in the Company.

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CHAIRMAN'S LETTER

17 July 2015

Dear Investor,

On behalf of the Board, I am delighted to invite you to become a Shareholder in Pepper Group Limited (the **Company**).

Pepper is a specialist residential mortgage and consumer lender and loan servicer, operating in targeted market segments in Australia and internationally, many of which are underserviced by traditional bank and other prime lenders. Pepper was established in 2000 and commenced lending as a specialist residential mortgage lender in the Australian market in March 2001.

Pepper offers a broad range of lending products including residential mortgages, auto and equipment finance, point-of-sale finance and personal loans. Pepper also provides loan servicing for its own products as well as for third parties across residential mortgages, consumer unsecured and secured loans and commercial real estate (**CRE**) backed loans. Pepper has become a specialist lending and loan servicing group through a combination of organic growth and targeted acquisitions across Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, and Hong Kong and China through its 12% equity interest in PrimeCredit. At 31 December 2014, Pepper had $28.6 billion of assets under management (**AUM**).

Pepper has a focused growth strategy, aimed at organically building new lending volumes through multiple distribution channels in its target market segments and winning new third-party servicing contracts across a diverse range of asset classes, thereby increasing its AUM. Pepper is also continuing to selectively explore new acquisitions in line with those that have helped it grow strongly over the past few years. Pepper expects to be able to continue to grow its income and profitability in CY2015, with AUM forecast to increase 44.2% to $41.3 billion, Pro Forma income forecast to increase 30.8% to $304 million and Adjusted NPAT by 33.9% to $47.0 million.[1]

Pepper is undertaking the Offer to raise capital to repay Pepper's existing corporate debt and strengthen its balance sheet, provide access to equity markets which it expects will give it added financial flexibility to pursue further growth opportunities, provide an opportunity for institutional and retail investors to become Shareholders in the Company, allow the Incentive Scheme Trustee[2] to realise part of its holding in the Company and assist Pepper in attracting and retaining quality staff. Pepper also looks forward to the increased profile and other benefits of being a listed entity.

Pepper is led by a highly regarded and experienced senior Management team and Board. Pepper's Co-Group CEOs – Michael Culhane and Patrick Tuttle – have been with Pepper for over 14 years and have been instrumental in the growth Pepper has achieved in both Australia and offshore.

I am very excited about the outlook for Pepper. Management[3] and Board Shareholders will retain all their existing Shares and I will remain Pepper's largest Shareholder. Management and Board Shareholders will continue to own 45.4%[4] of Pepper's Shares on issue after the Offer, and we will all enter into various escrow arrangements as detailed in this Prospectus.

This Prospectus contains detailed information about the Offer, the historical and forecast financial performance and market position of Pepper, as well as the material risks associated with an investment in the Company. I encourage you to read this document carefully and in its entirety before making your investment decision.

On behalf of the Board, I encourage you to consider the Offer and look forward to welcoming you as a Shareholder of Pepper.

Yours sincerely,

Seumas Dawes

1. The Forecast Financial Information set out in Section 3 has been prepared on the basis of the best estimate assumptions set out in Section 3 and should be read in conjunction with the discussion of the Financial Information in Section 3 (including the sensitivities set out in that section), the risk factors set out in Section 4 and the terms defined in the Glossary (Appendix B). There is no guarantee that the forecasts will be achieved.
2. Shares held by the Incentive Scheme Trustee are in connection with the Legacy Scheme and, on or after Completion of the Offer, the LTI Scheme and Employee Gift Offer. Refer to Sections 5 and 6 for more information.
3. Note that a portion of Shares held by the Incentive Scheme Trustee in connection with the Legacy Scheme will be sold as part of the Offer and the participants of the Legacy Scheme Trust are Management and their closely related parties. Refer to Section 5.3.4 for more information.
4. Excluding Shares acquired by them, or their closely related parties, as part of the Offer (which will not be subject to escrow arrangements). Some Management and Board Shareholders have expressed an intention to acquire Shares as part of the Offer, see Section 6.1.6 for more information.

KEY OFFER STATISTICS AND IMPORTANT DATES

Key Offer statistics[5]

Offer Price	$2.60
Total proceeds under the Offer ($ millions)	144.5
Total proceeds from the issue of New Shares under the Offer ($ millions)	138.4
Total proceeds from the sale of Existing Shares under the Offer ($ millions)	6.1
Total number of New Shares available under the Offer (millions)	53.5
Total number of Existing Shares to be sold under the Offer (millions)	2.3
Total number of Shares on issue at Completion of the Offer[6] (millions)	181.1
Market capitalisation at the Offer Price[7] ($ millions)	471.0
Offer Price/Pro Forma consolidated CY2015 forecast Adjusted NPAT per Share[8]	10.0×
Implied forecast dividend yield for final CY2015 dividend per Share at the Offer Price[9]	1.2%

5. The Forecast Financial Information set out in Section 3 has been prepared on the basis of the best estimate assumptions set out in Section 3 and should be read in conjunction with the discussion of the Financial Information in Section 3 (including the sensitivities set out in that section), and the risk factors set out in Section 4. There is no guarantee that the forecasts will be achieved.
6. Includes 0.3 million Shares relating to the Employee Gift Offer to be issued under the Offer and 1.4 million Shares relating to the LTI Scheme, each to be issued to the Incentive Scheme Trustee on or shortly after Completion.
7. Calculated as the total number of Shares on issue following Completion of the Offer multiplied by the Offer Price. Shares may not trade at the Offer Price after Listing.
8. This ratio is commonly referred to as a price to earnings ratio (PE ratio). Please refer to Section 3 for further details in relation to the Pro Forma Financial Information. Adjusted NPAT is defined as net profit after tax adding back Acquisition Amortisation (i.e. non-cash amortisation of finite life intangible assets recognised following acquisitions undertaken by Pepper). Management believes Adjusted NPAT is an important measure of the underlying earnings of the business due to the number of acquisitions during the historical period that has resulted in increased amortisation, which is a non-cash charge.
9. Implied dividend yield is calculated as the implied final dividend per Share (assuming the current intended final dividend of 3 cents per Share in CY2015) divided by the Offer Price. The payment of a dividend by the Company is at the discretion of the Board and will be a function of a number of factors, including general business conditions, the operating results and financial condition of Pepper, future funding requirements including capital expenditure, compliance with debt facilities, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by the Company, and any other factors the Board may consider relevant. No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend. For more information on the Company's dividend policy, see Section 3.

Key dates

Broker Firm Offer, Personnel Offer and Priority Offer open	Monday, 27 July 2015
Broker Firm Offer, Personnel Offer and Priority Offer close and Applications due	Wednesday, 29 July 2015
Expected commencement of trading of Shares on ASX on a conditional and deferred settlement basis	Friday, 31 July 2015
Settlement of the Offer	Tuesday, 4 August 2015
Issue and transfer of Shares (Completion of the Offer)	Wednesday, 5 August 2015
Commencement of trading in ASX on an unconditional and deferred settlement basis	Thursday, 6 August 2015
Expected despatch of holding statements	Thursday, 6 August 2015
Commencement of trading on ASX on a normal settlement basis	Friday, 7 August 2015

Dates may change

The dates above are indicative only and may be subject to change without notice.

The Company and SaleCo, in consultation with the Financial Adviser and the Joint Lead Managers, reserve the right to vary any or all of these times and dates subject to the Corporations Act, the ASX Listing Rules and other applicable laws, including to close the Offer early, extend the Offer, defer the Closing Date, accept late Applications either generally or in particular cases, allot Shares at different times to investors, or withdraw the Offer, without prior notification. The quotation and commencement of trading of the Shares are subject to confirmation from ASX. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

Investors are encouraged to submit their Application Forms as early as possible after the Offer opens. Times stated throughout this Prospectus refer to the time in Sydney, Australia.

How to invest

Applications for Shares can only be made by completing and lodging an Application Form.

Instructions on how to apply for Shares are set out in Section 6 and on the back of the Application Form.

Questions

Please call the Pepper Offer Information Line on 1300 385 439 (inside Australia) or +61 3 9415 4383 (outside Australia) from 9.00am to 5.00pm Monday to Friday during the Offer Period. If you have any questions, contact your Broker. If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

01.

Investment Overview

01. INVESTMENT OVERVIEW

Topic	Summary	For more information
1.1 Introduction		
What is Pepper's business?	Pepper is a specialist residential mortgage and consumer lender and loan servicer, operating in targeted market segments and asset classes in Australia and internationally, many of which are underserviced by traditional bank and other prime lenders. Pepper has become a specialist lending and loan servicing group through a combination of organic growth and targeted acquisitions across Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, and Hong Kong and China through its 12% equity interest in PrimeCredit. Pepper offers a broad range of lending products across residential mortgages, auto and equipment finance, point-of-sale finance and personal loans, underpinned by a comprehensive risk-based pricing methodology. Pepper also provides loan servicing for its own-originated loans as well as for third-party originated loans, including residential mortgages, consumer unsecured and secured loans and CRE-backed loans. As at 31 December 2014, Pepper had $28.6 billion in AUM, including $4.2 billion in outstanding loans to borrowers originated or acquired by Pepper and $24.4 billion in outstanding third-party loans that Pepper services. Pepper had 1,066 full-time employees globally as at 31 December 2014.	Section 2
What is Pepper's history?	Pepper was established in 2000 and commenced lending as a specialist residential mortgage lender in the Australian market in March 2001. In June 2010, Pepper was acquired by a group of institutional and high net worth investors led by Seumas Dawes and certain members of Management, led by Michael Culhane and Patrick Tuttle. Over the last five years, Pepper's growth strategy has concentrated on expanding its residential mortgage lending business and broadening its lending base across complementary asset classes including auto and equipment finance, personal loans and point-of-sale finance, both in Australia and internationally. Pepper has also focused on expanding its loan servicing business internationally by acquiring and building out business platforms that have enabled it to benefit from the sale and/or outsourcing of performing and non-performing loan portfolios, particularly within Europe. In 2012, Pepper began expanding into certain European markets by way of targeted acquisitions and now has specialist lending and servicing platforms in Ireland, the United Kingdom and Spain. Pepper has also expanded into Asia through the acquisitions of a mutual savings bank in South Korea in 2013 and a 12% equity interest in PrimeCredit, a specialist consumer finance business in Hong Kong and China.	Section 2

Topic	Summary	For more information
1.1 Introduction (cont.)		
What does Pepper do?	Pepper is a specialist residential mortgage and consumer lender focused on generating attractive risk-adjusted returns from its targeted asset classes of residential mortgages, auto and equipment finance, personal loans and point-of-sale finance. Pepper's lending business typically takes the form of originating loans and other financial assets (referred to in this Prospectus as **loans**) through limited-recourse Funding Vehicles, which are funded with third-party debt and equity capital from Pepper. The exception to this is South Korea, where Pepper owns a mutual savings bank which originates loans on-balance sheet and is deposit-funded. In addition to loan origination, Pepper, through limited-recourse Funding Vehicles, which are funded by third-party debt and equity or junior capital from Pepper, periodically acquires third-party originated loan portfolios, to which it is able to apply its specialist loan management and collections management capabilities to improve the underlying performance of these portfolios, thereby generating returns. Both its originated and acquired loan assets are concentrated on residential mortgages, with the balance principally comprised of consumer lending and a component of commercial asset lending. Pepper is also a specialist loan servicer that manages its own-originated and third-party originated loan books across a broad range of real estate and consumer loan asset classes. Pepper's servicing business involves the management of loans on behalf of its Funding Vehicles and third-party beneficial owners of the relevant loans by managing collections and enforcement and otherwise interfacing with customers. Pepper applies its lender's mind-set to its loan servicing activities to deliver strong customer management and collections outcomes, as measured by portfolio arrears levels, augmented by loss mitigation strategies. Pepper similarly applies its experience in loan servicing to the design of new lending products and related pricing-for-risk strategies, thereby facilitating a continuous feedback loop between its specialist lending and loan servicing activities. Through Pepper Property Group, Pepper is also an independent real estate investment and advisory group in Australia that provides integrated property and capital solutions for corporations, investors and developers.	Section 2.1.1
Where does Pepper operate?	Pepper's businesses operate as two divisions – the Australia and New Zealand Division and the International Division – each representing approximately half of Pro Forma total income in CY2014. • **Australia and New Zealand Division:** Pepper offers residential mortgage and auto and equipment lending products and third-party loan servicing in Australia. In New Zealand, Pepper offers third-party residential mortgage loan servicing.	Section 2.1.1

Topic	Summary	For more information
1.1 Introduction (cont.)		
Where does Pepper operate? (cont.)	• **International Division:** Pepper services a range of loan portfolios on behalf of third-party clients in Ireland, the United Kingdom and Spain. Pepper also offers residential mortgage and consumer lending products in the United Kingdom, South Korea and Spain. In addition, via its 12% equity interest in PrimeCredit, Pepper offers consumer loans and credit cards in Hong Kong and consumer loans in China. Pepper's international lending business is in its early stages of growth, leveraging expertise from Pepper's mature lending business in Australia and its servicing businesses globally. Pepper is headquartered in Sydney, Australia.	Section 2.1.1

	Divisions		
Operations	Australia and New Zealand Division	International Division	Pepper AUM as at December 2014
Mortgage lending			~$4.0 billion
Consumer/ other lending			~$0.2 billion
Third-party servicing			~$24.4 billion

Note: International Division consists of (from left to right) Ireland, the United Kingdom, Spain, South Korea, Hong Kong and China through Pepper's 12% equity interest in PrimeCredit. AUM excludes PrimeCredit.

Topic	Summary	For more information
Why is the Offer being conducted?	The Offer is being conducted to: • raise capital to repay Pepper's existing corporate debt and strengthen its balance sheet; • provide the Company with access to equity capital markets, which it expects will give it added financial flexibility to pursue further growth opportunities; • provide an opportunity for institutional and retail investors to become Shareholders in the Company; • allow the Incentive Scheme Trustee[10] to realise part of its holding in the Company primarily to enable participants in the Legacy Schemes to meet tax obligations arising in connection with the Offer; • provide Pepper with the benefits of an increased profile that arises from being a listed entity; and • assist Pepper in attracting and retaining quality staff.	Section 6.1.2

10. Shares held by the Incentive Scheme Trustee are in connection with the Legacy Schemes and, on or after Completion of the Offer, the LTI Scheme and Employee Gift Offer. Refer to Section 5 for more information.

Topic	Summary	For more information
1.2 Key features of Pepper's business model		
How does Pepper generate its income?	Pepper has a diversified income base generated at multiple points across the customer relationship and includes fee income from loan applications and settlements, net interest margin from lending, recurring loan servicing and management fees from originated loans and third-party servicing, interest income, trust management fees, and performance fees from servicing. Primary sources of Pro Forma income for Pepper in CY2014 include: • lending income (36%); • loan origination fees (7%); • servicing and loan administration fees for services provided to Funding Vehicles and to third parties (49%); and • advisory and other income (8%). Please refer to Sections 2 and 3 for further details on Pepper's sources of income.	Sections 2 and 3
How does Pepper fund its business?	Pepper maintains access to a diversified funding platform supported by established funding relationships with major commercial banks and investment banks and a Board approved funding policy. Pepper's debt is split between corporate funding and limited-recourse funding of Pepper's lending activities to customers. **Corporate funding** • **Corporate Debt Facilities:** Utilised for working capital and business operations. These facilities will be paid down to nil balance with proceeds from the Offer, and will remain available to fund future growth. **Asset funding** • **Warehouse Facilities:** Third-party funders provide limited-recourse financing for Pepper's loan originations and acquisitions. • **Term Securitisations:** Loans that are initially funded via a Warehouse Facility can be refinanced by limited-recourse asset-backed securities sold to external investors. • **South Korea deposits:** Pepper funds its lending in South Korea with retail customer deposits. Pepper funds any required "first loss" securitisation requirements through operational cash flow or bank financing. Pepper's funding model for its lending businesses is primarily based on limited-recourse Warehouse Facilities which are periodically refinanced into Term Securitisations. Current Warehouse Facilities include funding provided by three major Australian banks, three global investment banks and three alternative asset financiers across Australia, New Zealand and Europe. Pepper has a well-established Term Securitisation program developed over the past 12 years, supported by Australian and international institutional investors. Term Securitisations are used to refinance drawings under Warehouse Facilities. A large percentage of the financing for lending is also on a limited-recourse basis allowing for protection of the corporate balance sheet.	Section 2.7

Topic	Summary	For more information
1.3 Key financial metrics		
What is Pepper's historical and forecast financial performance?[11]	A summary of Pepper's Pro Forma Financial Information and statutory Financial Information is presented below and is a summary only and should be read in conjunction with the more detailed discussion of the Financial Information set out in Section 3 as well as the key risks set out in Section 4.	Section 3

While the Pro Forma Financial Information set out below does not represent the statutory results for the Company, the Company believes it is useful information as it permits investors to examine what it considers to be the underlying financial performance of the business. Pro Forma Financial Information does not include the consolidation of Pepper's limited-recourse Funding Vehicles.

Selected Pro Forma Financial Information

			Historical		Forecast
$ millions	**Notes**	**CY2012**	**CY2013**	**CY2014**	**CY2015**
Income	*1*	82.0	160.2	234.9	304.0
Profit before tax		33.3	49.0	48.3	56.7
NPAT		**22.2**	**33.8**	**34.2**	**43.5**
Adjusted NPAT	*2*	**22.2**	**34.2**	**35.1**	**47.0**

1. *Please refer to Section 3 for further details in relation to the Pro Forma Financial Information.*
2. *Adjusted NPAT is defined as net profit after tax adding back Acquisition Amortisation (i.e. non-cash amortisation of finite life intangible assets recognised following acquisitions undertaken by Pepper). Management believes Adjusted NPAT is an important measure of the underlying earnings of the business due to the number of acquisitions during the historical period that has resulted in increased amortisation, which is a non-cash charge.*

A summary of the statutory Financial Information is set out below. Statutory preparation includes the consolidation of the limited-recourse Funding Vehicles.

Selected statutory Financial information

			Historical		Forecast
$ millions	**Notes**	**CY2012**	**CY2013**	**CY2014**	**CY2015**
Income	*1*	329.1	329.9	423.4	509.5
Profit before tax		35.8	43.1	44.7	11.7
NPAT		**24.6**	**28.6**	**38.0**	**1.3**

1. *Please refer to Section 3 for further details.*

Trading update

As at the date of this Prospectus, interim financial statements for the first half of CY2015 have not been prepared. Pepper intends to announce its half yearly results to the market in August 2015.

11. The Forecast Financial Information set out in Section 3 has been prepared on the basis of the best estimate assumptions set out in Section 3 and should be read in conjunction with the discussion of the Financial Information in Section 3 (including the sensitivities set out in that section), and the risk factors set out in Section 4. There is no guarantee that the forecasts will be achieved. A reconciliation between the statutory forecast and the Pro Forma forecast is set out in Section 3.

Topic	Summary	For more information
1.3 Key financial metrics (cont.)		
What is Pepper's historical and forecast financial performance?[11] (cont.)	As at the date of this Prospectus, based on unaudited monthly management accounts for the year to date period, Pepper management currently anticipates that circa 35% of CY2015 forecast Pro Forma Adjusted NPAT will be realised in the first half of CY2015, which would be generally consistent with expectations when the budget was set. The skew in financial performance reflects the growth profile of the business (Pepper South Korea and Pepper Asset Finance in particular), timing of certain transactions (predominantly Pepper Ireland), and typically observed seasonality in the Australian mortgage market. These factors are described in Section 3 of this Prospectus.	
What is Pepper's dividend policy?[12]	Subject to future business conditions, available profits and franking credits and the financial position of Pepper, it is the current intention of the Board to pay dividends. Assuming a CY2015 result consistent with the Forecast Financial Information, the Directors anticipate the first dividend will be determined in respect of the half year ending 31 December 2015, and will be 3 cents per Share payable in March 2016. It is currently expected that dividends will be fully franked. Thereafter, it is the current intention of the Board to increase dividends broadly in line with the growth in Adjusted NPAT. No assurances can be given by any person, including the Directors, about the payment of dividends and the level of franking on such dividends. Please read the Forecast Financial Information as set out in Section 3 and the risk factors as set out in Section 4. The Corporate Debt Facilities cap the ability for the Company to pay any dividend at 100% of the Cash NPAT (as defined in the Corporate Debt Facilities, being the statutory NPAT adjusted (i.e. adding back) for one-off expenses, depreciation expenses, and amortisation of Intangibles (including impairment of Intangibles), as derived from the latest financial statements) for the immediately preceding year. Under the Board's current intended dividend policy, the Company does not consider this to be a material limitation.	Section 3.12

Topic	Summary	For more information
1.4 Key strengths		
Integrated operating model across a global business	Pepper's results are delivered through the consistent application of its core competencies across multiple market segments and geographic locations, both in Australia and New Zealand, and internationally. Central to the success of its business model is Pepper's ability to combine its consumer credit and risk-based loan underwriting expertise with its specialist loan servicing and collections management capabilities, tailored for a range of targeted asset classes – principally residential mortgages, auto loans, equipment finance, small-balance commercial mortgages, small and medium-sized enterprise (**SME**) loans, and personal loans.	Section 2

12. The Forecast Financial Information set out in Section 3 has been prepared on the basis of the best estimate assumptions set out in Section 3 and should be read in conjunction with the discussion of the Financial Information in Section 3 (including the sensitivities set out in that section), and the risk factors set out in Section 4. There is no guarantee that the forecasts will be achieved.

Topic	Summary	For more information
1.4 Key strengths (cont.)		
Integrated operating model across a global business (cont.)	Pepper's operating model combines risk-based underwriting expertise with specialist loan servicing capabilities supported by: • **Product manufacturing:** Deep manufacturing expertise in residential mortgage and auto and equipment finance loans gives Pepper the ability to create an innovative and flexible range of loan products with attractive risk-return profiles in Australia. Internationally, Pepper's management team has experience in residential mortgage lending in the United Kingdom and consumer finance and residential mortgage lending in Spain. The Management teams in Asia are experienced in consumer finance lending. Pepper is able to apply its detailed knowledge of borrowers to develop new products across all its markets that address unmet demand; • **Distribution:** Pepper distributes residential mortgage loans in Australia through its relationships with approximately 8,000 accredited brokers and approximately 20 key White-Label partners. Pepper distributes auto and equipment loans in Australia through motor dealers, auto brokers and commercial brokers. Strong, long term relationships with global loan portfolio acquirers also help Pepper to win and maintain servicing contracts across multiple jurisdictions; • **Treasury and funding expertise:** Pepper has a number of long term funding partners and is a trusted repeat issuer in the Term Securitisation markets; • **Risk management:** Pepper operates with a holistic risk management and governance framework which it applies consistently across its operating jurisdictions; and • **Collections management:** Pepper's specialised loan collections management capabilities are based on its proprietary workflow processes and receivables management systems tailored to local regulatory requirements, coupled with its relationship-driven approach to customer management.	Section 2
Sound financial profile and capital efficient, with high growth	Pepper's financial profile is underpinned by a mature but fast-growing specialist lending business in Australia focused on continued expansion of its existing home loan products across non-conforming, near-prime and prime residential mortgages. This is coupled with diversification and expansion into new, complementary lending categories such as auto and equipment finance. Pepper's International Division is experiencing growth largely driven by organic growth in its existing servicing businesses along with targeted acquisitions. Pepper's expansion in recent years has been evidenced by a significant increase in AUM, largely driven by growing Pepper-originated lending in Australia and the successful execution of multiple new loan servicing mandates globally.	Section 3

Topic	Summary	For more information
1.4 Key strengths (cont.)		
Sound financial profile and capital efficient, with high growth (cont.)	As a result of both organic growth and acquisitions, between CY2013 and CY2014: • total income increased by $74.7 million, from $160.2 million in CY2013 to $234.9 million in CY2014, an increase of 46.6%; • loan origination fees increased by $10.2 million, from $6.4 million in CY2013 to $16.6 million in CY2014, an increase of 159.1%, primarily driven by increased mortgage originations in Australia; and • servicing and loan administration fees increased by $43.5 million, from $70.8 million in CY2013 to $114.3 million in CY2014, an increase of 61.4%. Total income is forecast to increase by $69.1 million in CY2015 on a Pro Forma basis, from $234.9 million in CY2014 to $304.0 million in CY2015, an increase of 29.4%.[13] The growing and recurring nature of the residential mortgage and consumer lending business, along with its relatively stable long term net interest margins, provides a high degree of visibility over revenue and earnings generation from year to year. Similarly, the servicing businesses consist of a highly diversified portfolio of long term contracted revenues based on predictable base servicing margins and transparent performance fee hurdles. Pepper's status as a non-bank lender combined with its in-house treasury and securitisation expertise has enabled it to develop a capital efficient, limited-recourse funding model for its lending business. Aside from limited co-investments in loan portfolios which it manages on behalf of third parties, Pepper is not required to hold capital against its loan servicing AUM as it does not typically assume any underlying credit risk for these loan portfolios. Pepper's servicing business is more capital efficient than its lending business and generally does not require significant equity investment from Pepper. However, third-party clients sometimes require that Pepper co-invests small amounts, generally 1% or less of the total investment, in the underlying loan portfolios in order to align the parties' interests. Such co-investments are typically funded out of cash or may be funded out of specific bank or other financing arrangements.	Section 3
Experienced Board and global Management team	The Board and Management team have extensive operational, financial and risk management experience demonstrated by a strong track record of performance since the Company's inception in 2000, including during the financial crisis. The senior Management team is led by Michael Culhane and Patrick Tuttle, Co-Group CEOs and Directors, who have each been with Pepper for over 14 years, supported by a strong global leadership team.	Section 5

13. The Forecast Financial Information set out in Section 3 has been prepared on the basis of the best estimate assumptions set out in Section 3 and should be read in conjunction with the discussion of the Financial Information in Section 3 (including the sensitivities set out in that section), and the risk factors set out in Section 4. There is no guarantee that the forecasts will be achieved.

Topic	Summary	For more information
1.4 Key strengths (cont.)		
Multiple strategies for future organic and acquisitive growth	Pepper is focused on a number of growth strategies that will continue to drive income and profitability over coming years. • **Organic lending growth** – **Australia and New Zealand Division:** Strong volume growth outlook driven by: > underlying market growth and segment penetration in the non-conforming (including near-prime) and prime segments of the residential mortgage market; > investments in brand positioning and a new direct-to-consumer distribution channel, Pepper Direct; and > new product development initiatives such as Pepper Asset Finance. – **International Division:** Pepper expects growth driven by new lending in the United Kingdom and Spain, in addition to continued strong lending growth in South Korea. The recent acquisition of a 12% equity interest in PrimeCredit is expected to generate future earnings from consumer lending in Hong Kong and China. • **Organic servicing growth** – Volume increases in Pepper-originated loans are expected to deliver commensurate growth in Pepper's servicing revenue. – Third-party servicing contracts are expected to grow. – Pepper has also identified a large pipeline of potential new third-party servicing contracts across Europe. • **Disciplined acquisitive growth** – Management has a demonstrated track record in identifying and executing platform acquisitions in targeted markets that are consistent with Pepper's strategy and deliver future lending and/or servicing growth, and where such acquisitions meet Pepper's strict acquisition criteria including a detailed evaluation of country risk and the achievement of acceptable return on equity thresholds. Pepper is currently examining a number of potential acquisition opportunities. – Markets and ensuing acquisitions are carefully selected by Management in close consultation with the Board. Since 2012, the strategy for overseas expansion has been delivered by targeting markets where dysfunction exists. Dysfunction can take the form of difficult market conditions that were present in the Irish and Spanish markets at the point of acquisition or alternatively where motivated sellers exist in markets with relatively low numbers of interested buyers. Both the South Korean and Hong Kong and China acquisitions represent the latter approach. Common in all acquisition targets is a focus on acquisition price coupled with the requirement for a pre-existing strategic rationale. – Pepper also expects that it will be able to capitalise on certain global opportunities stemming from regulatory change and capital market volatility and is focused on executing these opportunities in a disciplined and structured manner through the use of its dedicated internal mergers and acquisitions team.	Section 2.1.3

Topic	Summary	For more information
1.5 Key risks		
Inability to access funding or less favourable terms	Pepper's funding platform currently comprises a mix of Warehouse Facilities, Term Securitisations, Corporate Debt Facilities, balance sheet cash and, in the case of Pepper South Korea, customer deposits, each as described in Section 2.7. Across its various markets, Pepper depends on these sources to fund mortgage and consumer loan originations and therefore faces funding risks. A loss of or adverse impact on or in relation to one or more of Pepper's funding sources, without access to alternative funding sources, could limit Pepper's ability to write new business or to write business on favourable terms, or to refinance expiring Warehouse Facilities, which could have a materially adverse effect on Pepper's business, operating and financial performance.	Section 4.1.1
Regulatory and licence compliance	Pepper is subject to extensive regulation in each of the jurisdictions in which it conducts its business. Changes in law or regulation in a market in which Pepper operates could materially impact the business. There is a risk that Pepper could face legal, regulatory sanctions or reputational damage as a result of any failure to comply with (or comply with developing interpretations of) applicable laws, regulations, codes of conduct and standards of good practice, including in relation to responsible lending. A breach in any of these areas could result in fines or penalties, the payment of compensation or the cancellation or suspension of Pepper's ability to carry on certain of its activities or businesses which could materially adversely affect Pepper's business, operating and financial performance. Pepper is licensed and/or registered to operate a number of its services across a range of jurisdictions. Changes to these licensing regimes, the revocation of existing licences, an inability to renew or receive necessary licences or the imposition of capital requirements could materially adversely affect Pepper's business, operating and financial performance. If any of the Group licence holders do not comply with the conditions of their licences or meet other regulatory requirements, that entity could be subject to penalties, more onerous licence conditions, the imposition of licence restrictions or the loss of that licence.	Section 4.1.2
Capital and liquidity requirements	There is a risk that Pepper could be required to contribute additional "first loss" equity capital to support the credit position of senior ranking noteholders in Pepper Warehouse Facilities and Term Securitisations, and could be required to contribute additional capital to support the regulatory capital requirements or business needs of Pepper South Korea, which could impact Pepper's profitability or ability to grow and/or could force it to raise additional capital. As part of Pepper's funding arrangements, it is required to contribute an amount of "first loss" equity capital to the trusts to provide credit enhancement to the higher-ranking debt tranches provided by banks and/or other noteholders and to meet other requirements as set out in Section 4.1.3. The amount of "first loss" capital that Pepper is required to hold varies depending on the credit quality and historic performance of the collateral in the trusts, whether the trust is bank or capital markets funded, the internal credit and other requirements of banks, noteholders and rating agencies and local regulations. "First loss" equity in Pepper's Warehouse Facilities and Term Securitisations varies but is generally between 2% and 5%.	Section 4.1.3

Topic	Summary	For more information
1.5 Key risks (cont.)		
Liabilities in relation to Funding Vehicles, including with respect to its originating, servicing, trustee, or trust management contracts	There is a risk that Pepper is required to repurchase loan assets from, or to contribute collateral equal to the amount of loan assets into, its Warehouse Facilities and Term Securitisations as a consequence of breaching certain representations or obligations relating to those loan assets, including with respect to eligibility of the assets to be held within the relevant Warehouse Facility or Term Securitisation under the terms of that arrangement. Pepper also provides indemnities to the trustees of its Funding Vehicles in respect of losses arising from its negligence or breach of its origination, servicing or management obligations, and in respect of certain other matters.	Section 4.1.4
Early termination or non-renewal of servicing contracts	There is a risk that Pepper's servicing contracts could be terminated early due to the occurrence of a number of events, including failure by Pepper to meet the service requirements specified in the contract, sale of the loan portfolio by the owner, or the contract may not be renewed at the current maturity date. Servicing contracts in respect of pools of loans subject to Warehouse Facilities or Term Securitisations may also be terminated in the event of defaults or other circumstances occurring in respect of the relevant Warehouse Facilities or Term Securitisations, and some servicing contracts may be terminated at the election of the relevant counterparty without cause subject to a minimum period of notice. While early termination in some third-party servicing contracts may give rise to termination payments for Pepper's benefit, early termination of contracts could materially adversely affect the financial performance of Pepper.	Section 4.1.5
Portfolio performance	Pepper generates income from, among other things, the ownership of residual income units and Equity Notes in its Warehouse Facilities and Term Securitisations (or Funding Vehicle), where income is distributed net of credit losses on the underlying pool of mortgages or other loans. An increase in credit losses on the underlying loans caused by borrower defaults will reduce the income available to the Funding Vehicle to pay its expenses, interest costs and, at the bottom of the cash flow waterfall, distributions to Pepper. Pepper's right to receive income from a Funding Vehicle is subordinated to the rights to income of senior ranking funders or noteholders, who make up the vast majority of the funding of the Funding Vehicles. As a result, Pepper's income from the Funding Vehicles and value of Equity Notes in the Funding Vehicles, will decline by the full amount of any credit losses experienced until the Equity Notes are fully absorbed.	Section 4.1.6
Reputational matters	Pepper relies heavily on its reputation in the day-to-day running of its business. Pepper manages risks relating to legal and regulatory requirements, responsible lending and sales practices, potential conflicts of interest, privacy laws and ethical issues, among other considerations, which may cause harm to its reputation. Any adverse perception of Pepper's reputation or image on the part of investors, customers, counterparties, rating agencies or regulators could materially adversely affect Pepper's business, operating and financial performance.	Section 4.1.7
Regulatory changes for funders	There is a risk that Pepper's funding banks could experience changes to their regulatory requirements which could impact their ability to fund Pepper, such as a need to hold more capital against warehouse lines, consolidate warehouse assets onto their balance sheet or other changes.	Section 4.1.8

Topic	Summary	For more information
1.5 Key risks (cont.)		
Increased competition in the lending and services market	Each of Pepper's operating activities is subject to competitive pressures. There is a risk that competitive forces could impact Pepper more than anticipated by the Directors and Management. Any reduction in fees or interest rate margins in line with, or to remain competitive within, the lending market, or loss of market share due to competitive pressures could materially adversely affect Pepper's business, operating and financial performance. If Pepper's competitors offer comparable products or services at lower margins, existing Pepper customers or partners may choose to refinance their loans with other lenders or enter into relationships with other servicers.	Section 4.1.9
Business continuity and operational risk	Pepper's business is highly dependent on its ability to process a large number of transactions and functions on a daily basis. Pepper's financial, accounting, data processing and other operating systems and facilities may fail to operate or become partially disabled as a result of events that are wholly or partly outside Pepper's control. In addition, Pepper is exposed to the risk of loss resulting from product complexity and pricing risk, client sustainability and servicing risk, incorrect evaluation, record or accounting for transactions, human error, breaches of Pepper's internal policies and regulations, breaches of security, theft and fraud and improper business practices. Pepper's inability to maintain business continuity in such a situation could materially adversely affect Pepper's business, operating and financial performance.	Section 4.1.10
Downturn in the global economy	Pepper is a global business operating in multiple jurisdictions. A material downturn in the economies in which Pepper operates, a sustained outbreak of higher inflation or shocks to the financial system (e.g. a Greek exit from the European Union) could result in a material increase in unemployment, decreases in house prices, higher interest rates, general reduction in demand for credit and/or a reduction in a borrower's ability to service their debt. These factors, either alone or in combination, could materially adversely affect Pepper's operations and financial performance in a number of different ways.	Section 4.1.11
Disruption to global markets	As a diversified financial institution, Pepper may be affected by market disruption in a number of ways. Pepper's businesses also operate in, or depend on the operation of, these markets, either directly or indirectly, including through exposures in securities, loans and other activities (including risk management activities). In particular, Warehouse Facilities are generally relatively short term in nature and accordingly Pepper's ability to fund its business is dependent on the willingness of the funders of its Warehouse Facilities to extend their facilities, or on its ability to arrange a refinancing of those facilities through a replacement Warehouse Facility or Term Securitisation in the capital markets. These markets experienced significant disruption during the financial crisis and could experience disruption if another crisis were to occur, including as a result of shocks to the financial system (e.g. a Greek exit from the European Union). In addition, any disruption in the financial markets may flow into the real economy, slowing or contracting major global economies. Accordingly, a disruption in financial markets could materially adversely affect Pepper's business, operating and financial performance.	Section 4.1.12

Topic	Summary	For more information
1.5 Key risks (cont.)		
Information technology	Pepper's ability to provide reliable services, pricing and accurate and timely reporting for its customers is a key competitive advantage. This depends on the efficient and uninterrupted operation of its core technologies, which include specialised and proprietary software systems, IT infrastructure and back-end data processing systems. Pepper's core technologies and other systems could be exposed to damage or interruption from systems failures, computer viruses, cyber-attacks or other events.	Section 4.1.13
Fraud	Pepper is exposed to the risk that its counterparties and customers, including loan brokers and aggregators, servicing customers and individual loan borrowers, may seek to commit fraud against Pepper or in connection with the products and services that Pepper provides. Fraudulent behaviours could include individual borrowers, brokers or other parties, conspiring to misrepresent their ability to service the loans, overstate the value of their collateral, or undertake identity theft in order to obtain loans. Pepper relies on its internal policies and procedures to identify fraud. Failure of these internal controls could result in damage to Pepper's reputation or standing with funding providers, or impact Pepper's ability to attract new customers, each of which could materially adversely affect Pepper's business, operating and financial performance.	Section 4.1.14
Other risks	A number of other risks relating specifically to an investment in Pepper and generally to an investment in the Shares are included in Section 4, including risks associated with its ability to meet forecasts, changes in its servicer ratings, its contracts and agreements, the prediction of the rate of repayment of existing assets, attracting and retaining quality personnel, adverse movement in interest rates, changes in foreign exchange rates, relationships with distribution partners, counterparty credit, litigation, claims or disputes, the protection of intellectual property, liabilities in relation to third-party servicing or management services, the availability of tax losses in Ireland and the availability of tax losses for bad debts.	Section 4

Topic	Summary		For more information
1.6 Key Offer statistics			
What are the key Offer statistics?	Offer Price	$2.60	Section 6
	Total proceeds under the Offer ($ millions)	144.5	
	Total proceeds from the issue of New Shares under the Offer ($ millions)	138.4	
	Total proceeds from the sale of Existing Shares under the Offer ($ millions)	6.1	
	Total number of New Shares available under the Offer (millions)	53.5	
	Total number of Existing Shares to be sold under the Offer (millions)	2.3	
	Total number of Shares on issue at Completion of the Offer[14] (millions)	181.1	
	Market capitalisation at the Offer Price[15] ($ millions)	471.0	
What are the key investment metrics?[16]	Offer Price/Pro Forma consolidated CY2015 forecast Adjusted NPAT per Share[17]	10.0×	Section 3
	Implied forecast dividend yield for final CY2015 dividend at the Offer Price[18]	1.2%	

14. Includes 0.3 million Shares relating to the Employee Gift Offer to be issued under the Offer and 1.4 million Shares relating to the LTI Scheme, each to be issued to the Incentive Scheme Trustee on or shortly after Completion.
15. Calculated as the total number of Shares on issue following the Completion of the Offer multiplied by the Offer Price. Shares may not trade at the Offer Price after Listing.
16. The Forecast Financial Information set out in Section 3 has been prepared on the basis of the best estimate assumptions set out in Section 3 and should be read in conjunction with the discussion of the Financial Information in Section 3 (including the sensitivities set out in that section), and the risk factors set out in Section 4. There is no guarantee that the forecasts will be achieved.
17. This ratio is commonly referred to as a price to earnings ratio (PE ratio). Please refer to Section 3 for further details in relation to the Pro Forma Financial Information. Adjusted NPAT is defined as net profit after tax adding back Acquisition Amortisation (i.e. non-cash amortisation of finite life intangible assets recognised following acquisitions undertaken by Pepper). Management believes Adjusted NPAT is an important measure of the underlying earnings of the business due to the number of acquisitions during the historical period that has resulted in increased amortisation, which represents a non-cash charge.
18. Implied dividend yield is calculated as the implied final dividend per Share (assuming the current intended final dividend of 3 cents per Share in CY2015) divided by the Offer Price. The payment of a dividend by the Company is at the discretion of the Board and will be a function of a number of factors, including general business conditions, the operating results and financial condition of Pepper, future funding requirements including capital expenditure, compliance with debt facilities, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by the Company, and any other factors the Board may consider relevant. No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend. For more information on the Company's dividend policy, see Section 3.

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td colspan="3">1.7 Pepper Directors and key executives</td></tr>
<tr><td>Who are the Directors and key executives of Pepper?</td><td>Directors
Seumas Dawes (Chairman and Non-Executive Director)
Des O’Shea (Independent Non-Executive Director)
Melanie Willis (Independent Non-Executive Director)
Matthew Burlage (Independent Non-Executive Director)
Michael Culhane (Co-Group Chief Executive Officer and Director)
Patrick Tuttle (Co-Group Chief Executive Officer and Director)

Key executives
Michael Culhane (Co-Group Chief Executive Officer)
Patrick Tuttle (Co-Group Chief Executive Officer)
Cameron Small (Group Chief Financial Officer)
Timothy Cecil (Group Chief Risk Officer)
David Holmes (Chief Operating Officer)
Todd Lawler (Group Treasurer)
Mario Rehayem (Director, Sales and Distribution)
Sue Kent (Group Head of Human Resources)
Bernie Campbell (Managing Director, Pepper Asset Finance)
Paul Doddrell (Chief Executive Officer, Pepper Ireland)
Richard Klemmer (Chief Executive Officer, Pepper United Kingdom)
Francisco (Paco) Pedraza (Chief Executive Officer, Pepper Spain)
Matthew Chang (Chief Executive Officer, Pepper South Korea)</td><td>Section 5</td></tr>
</table>

Topic	Summary	For more information
1.8 Significant interests of key people and related party transactions		
Who are the Existing Shareholders and what will their interest in Pepper be at Completion of the Offer?	(see table and notes below)	*Section 6.1.6*

	Notes	Shareholding prior to Completion of the Offer (Shares) (m) and (%)	Shareholding following Completion of the Offer (Shares) (m) and (%)
Existing Shareholders			
Non-Executive Director Shareholders	*1, 2, 3*	51.3m 40.7%	51.3m 28.3%
Management Shareholders	*1, 2*	31.0m 24.6%	31.0m 17.1%
Incentive Scheme Trustee	*1, 4*	10.4m 8.3%	9.8m 5.4%
Other Existing Shareholders	*1, 2*	33.5m 26.5%	33.5m 18.5%
New Shareholders		**0.0m** **0.0%**	**55.6m** **30.7%**

1. *These Shares held at Completion of the Offer will be subject to voluntary escrow arrangements as set out in Section 8.6, other than 1.4 million Shares and 0.3 million Shares relating to the LTI Scheme and Employee Gift Offer (respectively) to be issued to the Incentive Scheme Trustee on or shortly after Completion.*
2. *Excludes any Shares in which these Shareholders, or their closely related parties, may acquire an interest as part of the Offer at the Offer Price. Shares acquired under the Offer will not be subject to voluntary escrow arrangements. Some Non-Executive Director Shareholders, Management Shareholders and Other Existing Shareholders have expressed an intention to acquire Shares as part of the Offer, see Section 6.1.6 for more information.*
3. *Includes Shares held by Seumas Dawes and Rose Capital Pty Ltd (a closely related party of Mr Dawes).*
4. *2.3 million Shares held by the Incentive Scheme Trustee will be sold as part of the Offer primarily to enable participants (i.e. Management and their closely related parties) in the Legacy Schemes to meet tax obligations arising in connection with the Offer. The Incentive Scheme Trustee's Shareholding following Completion of the Offer includes 1.4 million Shares to be issued to the Incentive Scheme Trustee on or shortly after Completion of the Offer in connection with the LTI Scheme and 0.3 million Shares to be issued to the Incentive Scheme Trustee on or shortly after Completion in connection with the Employee Gift Offer. See Sections 5.3.4 and 6.5 for more information.*

Note: Shares held prior to Completion of the Offer are those held immediately prior to the transfer to SaleCo.

Topic	Summary	For more information
What significant benefits and interests are payable to Directors and other persons connected with Pepper or the Offer and what significant interests do they hold?	(see table below)	Section 5.3

Key people	Interest or benefit
Non-Executive Directors	Ownership of Shares Directors' fees (including options)
Management Shareholders	Ownership of Shares Remuneration
Other members of Management	Remuneration
Other Existing Shareholders	Ownership of Shares
Advisers and other service providers	Fees for services

Topic	Summary	For more information
1.8 Significant interests of key people and related party transactions (cont.)		
Controlling interest in Pepper and related party transactions	There will be no controlling interests in the Company immediately after the Offer. The Company has made loans to certain Directors as set out in Section 5.3.	Section 5.3
Will any Shares be subject to restrictions on disposal following Completion of the Offer?	All of the Escrowed Shares held at Completion by the Escrowed Shareholders (other than any Shares acquired by them, or entities related to them, under the Offer at the Offer Price) will be subject to disposal restrictions as follows: • **(Non-Executive Director Shareholders and Other Existing Shareholders)** 50% of Escrowed Shares held by Non-Executive Director Shareholders and Other Existing Shareholders will be subject to the voluntary escrow restrictions until 4.15pm on the business day after the Company's audited full year results for the period ending 31 December 2015 are released to ASX (**Early Release Date**) with the remaining Escrowed Shares to be released at 4.15pm on the business day after the Company's half year results for the period ending 30 June 2016 are released to ASX; and • **(Management Shareholders and Incentive Scheme Trustee)** 50% of Escrowed Shares held by Escrowed Shareholders who are Management Shareholders or the Incentive Scheme Trustee will be subject to the voluntary escrow restrictions until 4.15pm on the business day after the Company's half year results for the period ending 30 June 2016 are released to ASX (**Management/Trustee Shareholder Early Release Date**) (in addition to any release of 25% of their Escrowed Shares pursuant to condition 1 below, if applicable). All remaining Escrowed Shares of Management Shareholders and the Incentive Scheme Trustee will be released at 4.15pm on the business day after the Company's audited full year results for the period ending 31 December 2016 are released to ASX. Subject to certain exceptions, the Escrowed Shareholders may not dispose of their Escrowed Shares while they are subject to voluntary escrow arrangements or other disposal restrictions.	Section 8.6

Topic	Summary	For more information
1.8 Significant interests of key people and related party transactions (cont.)		
Will any Shares be subject to restrictions on disposal following Completion of the Offer? (cont.)	In the case of all Escrowed Shareholders, two of those exceptions to their voluntary escrow arrangements will permit them to each dispose of up to the percentage of their Escrowed Shares (in one or more transactions) listed below if the corresponding conditions have been satisfied:	Section 8.6

	Securities to be released from escrow	Escrow release conditions
1.	25% of Escrowed Shares held at Completion of Offer (in addition to 50% released on the Early Release Date or 50% either released or to be released on the Management/Trustee Shareholder Early Release Date)	• The Company's audited full year results for the period ending 31 December 2015 are released to ASX; and • The Company VWAP for any 20 consecutive trading days occurring after the release of those financial results exceeds the Offer Price by more than 30%[17]
2.	100% of Escrowed Shares held at Completion of Offer	• The Company's audited full year results for the period ending 31 December 2015 are released to ASX; and • The Company VWAP for any 20 consecutive trading days occurring after the release of those financial results exceeds the Offer Price by more than 60%[19]

Topic	Summary	For more information
1.9 Proposed use of funds and key terms and conditions of the Offer		
Who are the issuers of the Prospectus?	Pepper Group Limited (ABN 55 094 317 665), a company registered in New South Wales, Australia, and Pepper SaleCo Pty Limited (ACN 606 618 768), a company registered in Victoria, Australia.	Section 6
What is the Offer?	The Offer is an Initial Public Offering of 55.9 million Shares that will in part be issued by the Company and in part sold by SaleCo. The Shares to be issued and sold as part of the Offer will represent 30.8% of the Shares on issue after Completion of the Offer. The Offer of Shares to Eligible Employees under the Employee Gift Offer is also made under this Prospectus.	Section 6

19. The Company VWAP on any trading day prior to the release of the applicable financial results is not relevant to determining whether that exception is available.

Topic	Summary	For more information
1.9 Proposed use of funds and key terms and conditions of the Offer (cont.)		
What is SaleCo and how is it involved in the Offer?	SaleCo is a special purpose vehicle established to sell Shares acquired from the Incentive Scheme Trustee. The Incentive Scheme Trustee has executed a deed under which it has agreed to sell some Existing Shares to SaleCo free from encumbrances and third-party rights and conditional on (among other things) Listing. The Incentive Scheme Trustee has agreed to sell a total of approximately 2.3 million Existing Shares to SaleCo. The Existing Shares that SaleCo acquires from the Incentive Scheme Trustee, along with New Shares issued by the Company, will be acquired by Successful Applicants at the Offer Price.	Section 6
What is the proposed use of funds raised pursuant to the Offer?	The funds received under the Offer will be used as follows: • $138.4 million will be paid to the Company to reduce net debt and pay costs associated with the Offer; and • $6.1 million received by SaleCo will be paid to the Incentive Scheme Trustee (who will have sold Existing Shares to SaleCo).	Section 6
Where will the Shares be listed?	The Company has applied to ASX for admission to the Official List of, and quotation of its Shares by, ASX under the code "PEP". It is anticipated that quotation will initially be on a conditional and deferred settlement basis. Completion of the Offer is conditional on ASX approving that application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	Section 6
How is the Offer structured?	The Offer comprises: • the Broker Firm Offer; • the Institutional Offer, which consists of an invitation to acquire Shares made to Institutional Investors; • the Employee Gift Offer; • the Personnel Offer, which is only open to Eligible Employees; and • the Priority Offer, which is open to selected Australian resident retail investors as agreed between the Company and the Joint Lead Managers.	Section 6
Is the Offer underwritten?	Yes. The Offer (with the exception of the Employee Gift Offer) is fully underwritten by the Joint Lead Managers.	Section 6
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, the Institutional Offer, Personnel Offer and Priority Offer will be determined by the Joint Lead Managers in agreement with the Company, SaleCo and the Financial Adviser, having regard to the allocation policy outlined in Sections 6.3.5, 6.4.2 and 6.6. With respect to the Broker Firm Offer, it will be a matter for the Co-Lead Manager and Co-Managers how they allocate firm stock among their eligible retail clients.	Section 6

Topic	Summary	For more information
1.9 Proposed use of funds and key terms and conditions of the Offer (cont.)		
What is the allocation policy? (cont.)	With respect to the Employee Gift Offer, Eligible Employees will be offered the opportunity to apply for up to $1,000 worth of Shares at no cost. The allocation of Shares under the Employee Gift Offer is guaranteed to Eligible Employees.	Section 6
Are there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.	Section 6
What are the tax implications of investing in Shares?	Shareholders may be subject to Australian income tax or withholding tax on any future dividends paid. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances, particularly for non-resident Shareholders. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 6
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or about Thursday, 6 August 2015. Applicants can also check their allocations on and from the day of Listing in the manner outlined in Section 6.	Section 6
What is the minimum and maximum Application size under the Offer?	The minimum Application under Offer (other than the Employee Gift Offer), is $2,000 worth of Shares. There is no maximum value of Shares that may be applied for under the Offer (other than the Employee Gift Offer). Under the Employee Gift Offer, Eligible Employees will be offered the opportunity to apply for up to $1,000 worth of Shares at no cost.	Section 6
How can I apply?	If you are an eligible investor who has received an invitation to apply for Shares under the Broker Firm Offer, the Employee Gift Offer or the Personnel Offer, you may apply for Shares by completing a valid Application Form. Applicants under the Priority Offer may only apply for Shares online at www.peppershareoffer.com.au using the online Application Form and paying Application Monies via BPAY (no physical Application Form is needed when paying in this manner) or otherwise as agreed between the Company and the Joint Lead Managers. There are instructions set out on the online Application Form to help you complete it. To the maximum extent permitted by law, an application under the Offer is irrevocable.	Section 6
Can the Offer be withdrawn?	The Company and SaleCo reserve the right not to proceed with the Offer at any time before the issue or transfer of Shares to Successful Applicants. If the Offer does not proceed, Application Monies will be refunded by the Share Registry, your Broker or the Company or SaleCo. No interest will be paid on any Application Monies refunded.	Section 6
Where can I find more information about this Prospectus or the Offer?	Please call the Pepper Offer Information Line on 1300 385 439 (inside Australia) or +61 3 9415 4383 (outside Australia) from 9.00am until 5.00pm Monday to Friday during the Offer Period. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.	Key Offer Statistics and Important Dates on pages 3 and 4

02.

Company and Industry Overview

02. COMPANY AND INDUSTRY OVERVIEW

2.1 Introduction to Pepper and its business model

2.1.1 Introduction

Pepper is principally a specialist residential mortgage and consumer lender and loan servicer[20], operating in targeted segments in Australia and New Zealand, and internationally, many of which are underserviced by traditional bank and other prime lenders. As illustrated in Figure 1, Pepper operates across two divisions in addition to Corporate – the Australia and New Zealand Division and the International Division – each representing approximately half of Group Pro Forma income in CY2014. Within each division, Pepper offers products and services primarily focused on originating and managing loans, alongside some limited advisory and other ancillary services.

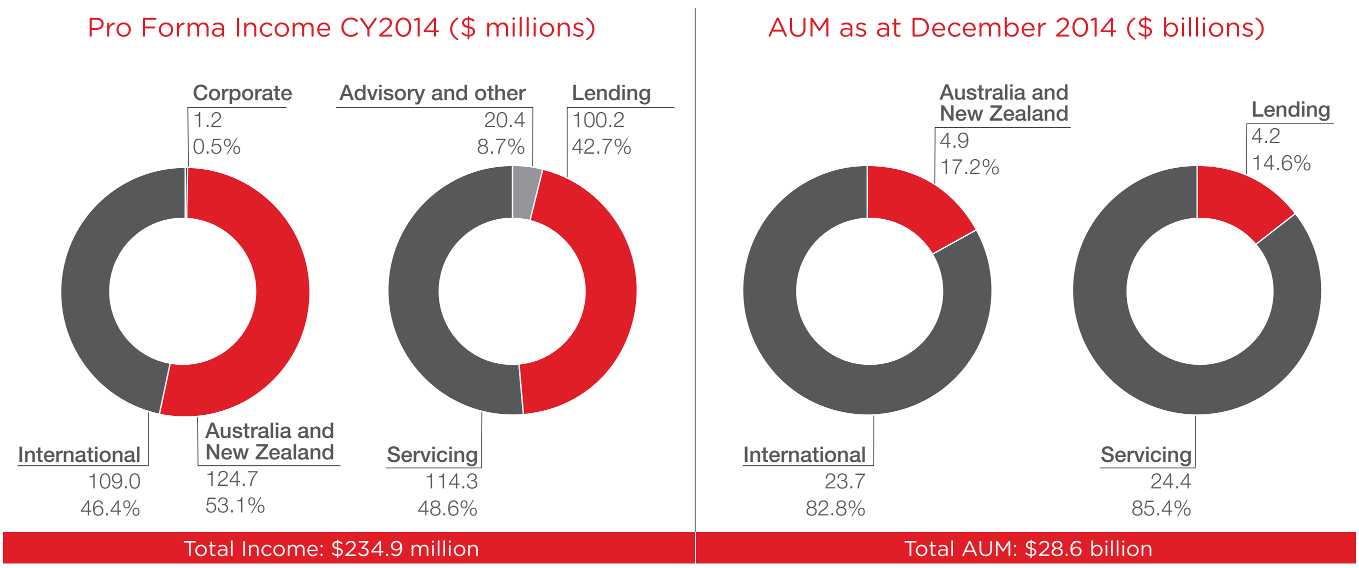
Table 1: Snapshot of Pepper

	Divisions		
Operations	Australia and New Zealand Division	International Division	Pepper AUM as at December 2014
Mortgage lending			~$4.0 billion
Consumer/other lending		PrimeCredit	~$0.2 billion
Third-party servicing			~$24.4 billion

Note: *International Division consists of (from left to right) Ireland, the United Kingdom, Spain, South Korea, Hong Kong and China through Pepper's 12% equity interest in PrimeCredit. AUM excludes PrimeCredit.*

As reflected in Figure 1, in CY2014 Pepper's Pro Forma income (as defined in Section 3.4.1) was approximately equally derived from the Australia and New Zealand Division and the International Division. The International Division's income is currently principally comprised of loan servicing income with lending income growing quickly, whereas the Australia and New Zealand Division's income is predominantly comprised of lending income.

Figure 1: Snapshot of the Group



Note: *See Section 3.5.3 for details on Corporate Division.*

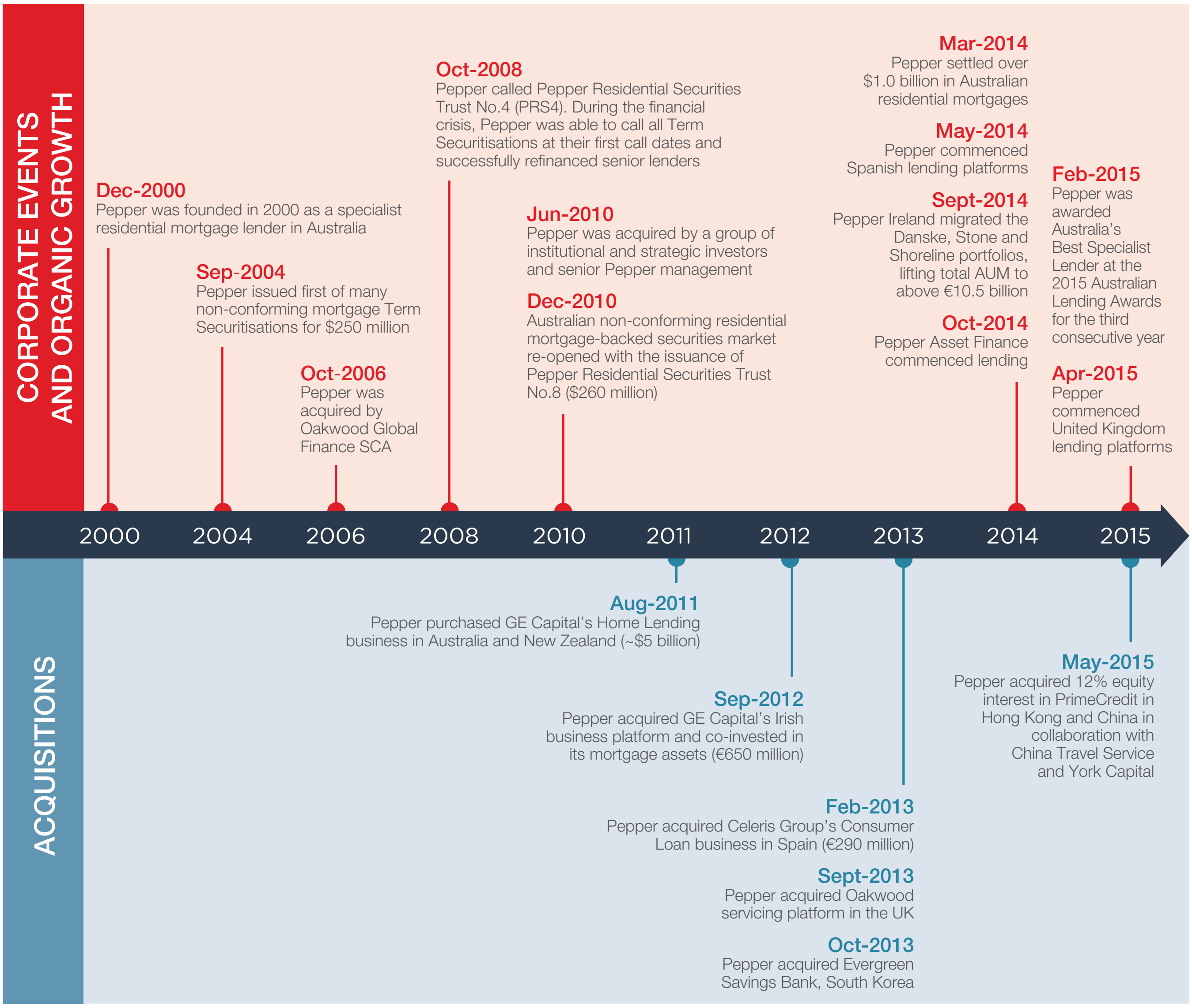
20. Pepper provides loan servicing for its own-originated loans as well as for third-party originated loans, including residential mortgages, consumer unsecured and secured loans and CRE-backed loans.

2.1.2 Pepper's history

Pepper was established in 2000 and commenced lending as a specialist residential mortgage lender in the Australian market in March 2001. Through a combination of organic growth and targeted acquisitions, Pepper has grown to become a specialist lending and loan servicing group targeting a number of asset classes in Australia and New Zealand, and internationally (including Ireland, the United Kingdom, Spain, South Korea, and, through its 12% equity interest in PrimeCredit, in Hong Kong and China. Overseas acquisitions have been focused on markets where dysfunction is present either in the form of difficult market conditions or motivated sellers of assets that fit within Pepper's servicing and lending strategy.

As summarised in Figure 2, over time, Pepper has built a strong core business globally which leverages its established Australian operational and management platform and continues to position Pepper to capture future growth opportunities around the world.

Figure 2: Key milestones in Pepper's history



Pepper's strategy today is to be a leading residential mortgage and consumer-focused lender and specialist loan servicer in its core markets. From 2001 to 2008, Pepper concentrated on building its non-conforming mortgage lending platform. During the financial crisis, Pepper maintained relationships with mortgage brokers supported by nominal amounts of new lending, while heavily focusing on diversifying its income base into third-party loan servicing. During this period from 2008 to 2010, Pepper was able to call its Term Securitisations at their first call dates and successfully refinance senior lending facilities (see Section 2.7).

Since 2010, Pepper has built platform scale through targeted acquisitions, including the acquisition of GE Capital's Home Lending business in Australia and New Zealand in August 2011. The approximately $5 billion loan book acquired from GE Capital substantially increased Pepper's Lending AUM, gave Pepper a presence in New Zealand and provided a solid base of ongoing net interest income and loan servicing income.

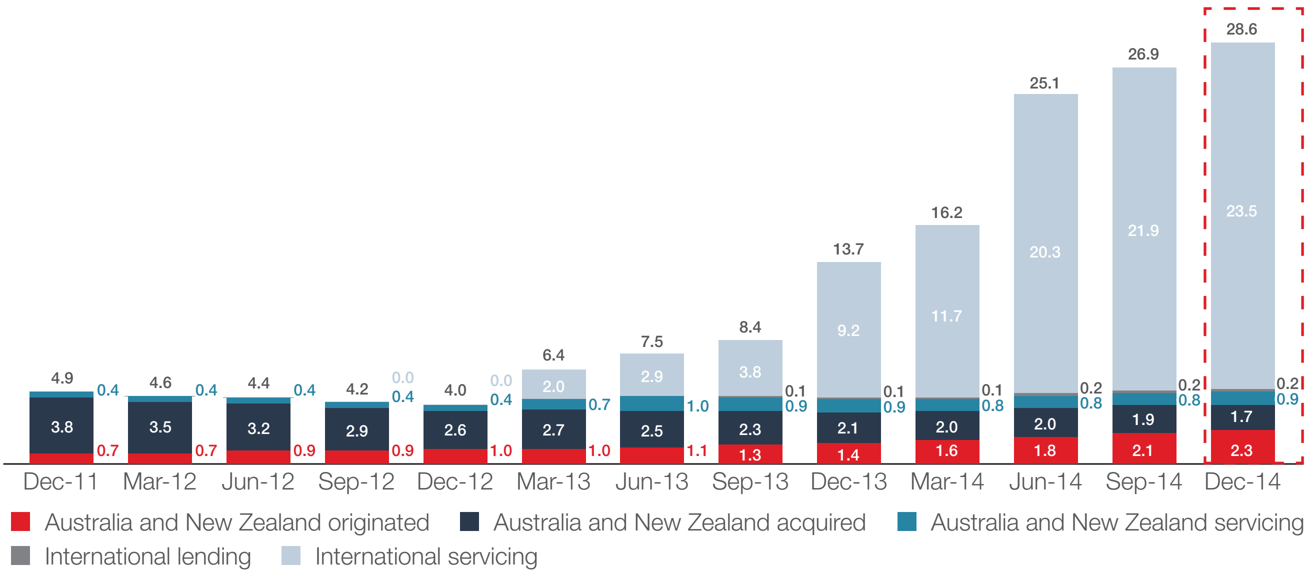
Other acquisitions include GE Capital's Irish business platform in September 2012, the purchase of the Celeris Group non-bank lending and servicing business in Spain in February 2013, and by the acquisition of Oakwood's United Kingdom servicing platform in September 2013. These acquisitions provided Pepper with significant entry points into the European market and the opportunity to diversify earnings through the geographical expansion of Pepper's loan servicing capabilities.

Pepper's entry into Asia was marked by the acquisition of Evergreen Savings Bank in South Korea in October 2013, and more recently the acquisition in May 2015 of a 12% equity interest in PrimeCredit, a consumer finance business with operations in Hong Kong and China. Both Asian acquisitions position Pepper to benefit from fast growing and dynamic consumer credit and residential mortgage lending segments in markets that allow for strong risk-adjusted returns on capital deployed. The common theme in all the overseas acquisitions is a focus on markets where Pepper's entry point is defined by dysfunctional market conditions or motivated sellers ensuring that Pepper furthers its expansion in a cost-effective manner.

Pepper has organically grown its mortgage book to complement its acquisitions and has also driven growth in its auto finance business (Pepper Asset Finance) and commenced its lending operations in the United Kingdom and Spain.

Figure 3 illustrates Pepper's AUM growth from December 2011 to December 2014. Pepper has grown its AUM over time, with its international loan servicing business now the largest individual contributor. Within Pepper's lending business, the Australia and New Zealand Division is the largest contributor to AUM as it is the most mature lending business within the Group.

Figure 3: AUM ($ billions) over time



Note: *Australia and New Zealand Division originated includes all Pepper-originated non-conforming and prime mortgages; Australia and New Zealand Division acquired includes GE and commercial acquired portfolios. Australia and New Zealand Division servicing comprises third-party servicing. International Division servicing includes servicing in Ireland, the United Kingdom, and Spain. International Division lending includes lending in South Korea and Spain.*

2.1.3 Vision, strategy and growth opportunities

2.1.3.1 Pepper's vision

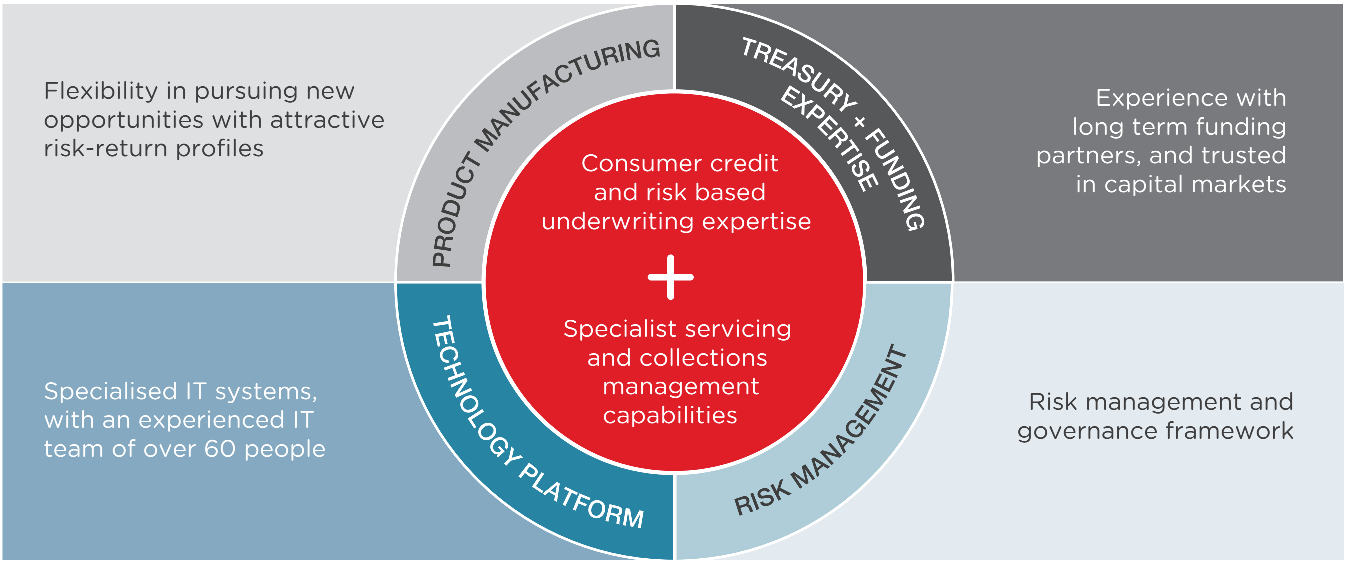
Pepper's vision is to build a world-class financial services business that offers affordable, priced-for-risk residential mortgage loan products to individuals and small businesses, typically in markets adjacent to or underserviced by banks and other traditional lenders.

Pepper is also building a leading independent loan servicing platform capable of managing own-originated and third-party originated performing and non-performing loan portfolios across a range of specific asset classes.

The lending and loan servicing businesses generate risk-adjusted returns, primarily in the form of loan origination fees, lending income (mainly net interest margin and loan fee income), servicing fee income and performance fee income. Pepper's returns from these businesses reflect the proprietary nature of the lending products and loan servicing techniques developed by Management over 14 years in both Australia and New Zealand, and internationally.

The lending and loan servicing businesses are integrated at an operational level, creating ongoing synergies between underlying loan performance, product design, servicing process design, and customer relationship management.

Figure 4: Pepper's core capabilities



Pepper executes its strategy through the consistent application of its core competencies across multiple market segments and geographies, both in Australia and New Zealand, and internationally.

Central to the success of its business model is Pepper's ability to combine its consumer credit and risk-based loan underwriting expertise with its specialist loan servicing and collections management capabilities, tailored for a range of targeted asset classes.

The feedback loop between Pepper's lending and loan servicing activities enables Pepper to continually refine its loan products to generate higher ongoing risk-adjusted returns.

In all of its markets, Pepper has implemented a consistent, holistic enterprise risk management framework underpinned by an understanding of the key market, credit, business, operational, reputational and regulatory risks in those markets. These risks are continuously assessed for their potential impact on the business with risk mitigation plans and product workflow changes implemented if required.

In each jurisdiction, Pepper has developed technology platforms to support the origination, underwriting and post-settlement loan servicing and collections management capabilities of its own-originated or third-party originated loan portfolios. See Section 2.9 for further detail.

Pepper's funding strategy is based on its use of long term limited-recourse loan funding structures. Typically, loans are initially funded via wholesale bank debt facilities and then periodically refinanced through the issuance of Term Securitisations in debt capital markets (refer to Section 2.7). Pepper utilises alternative sources of funding in jurisdictions with less developed securitisation markets as evidenced in South Korea, where Pepper operates as a mutual savings bank primarily funded by retail customer deposits.

Pepper's growth strategies

Pepper has developed a range of organic and acquisitive growth strategies in Pepper's target markets which are outlined in Figure 5.

Figure 5: Growth strategies of Pepper

Lending growth strategies	• Volume growth across lending book in Australia and New Zealand • New product development initiatives in Australia (Pepper Asset Finance, Pepper Direct) and International (loan origination)
Servicing growth strategies	• Increase in servicing AUM driven by Pepper-originated volume growth • Increase in servicing AUM driven by recent third-party contract wins • Large pipeline of identified potential new third-party servicing contracts
Further acquisitive growth	• Disciplined acquisitions consistent with targeted business lines in Australia and New Zealand Division and International Division • Capitalise on opportunities stemming from regulatory change and capital market volatility which is resulting in traditional players exiting target segments

Lending growth strategies

Pepper's lending strategies in Australia are focused on organic expansion and further diversification of its existing products and distribution channels in residential mortgages, auto loans and equipment finance. Pepper's strategies also include the potential introduction of other complementary products including personal loans and small-balance commercial mortgages in which it has existing expertise in its International Division.

In June 2012, Pepper commenced a pilot program for direct-to-consumer distribution in Australia driven primarily by internal leads from the GE Capital Australian mortgage lending business acquired in 2011. The small team operated with limited support from marketing and at the end of 2014 contributed 7% of all residential mortgages written for Pepper in Australia.

To build on the success of the pilot program, in May 2015, Pepper launched its first direct-to-consumer distribution channel, Pepper Direct, in Australia. Pepper's new retail website, www.pepper.com.au, focuses on direct origination of non-conforming residential mortgages and is complemented by its in-house call centre. The expansion of this channel has required new investment in the form of website development costs, and the recruitment of lending specialists and support staff to process call centre and website loan enquiries. Retail internet search engine optimisation and newspaper advertising will be used to promote sales generation through Pepper Direct.

The introduction of a direct-to-consumer channel via Pepper Direct is part of Pepper's strategy to expand and supplement its existing third-party distribution network and will help establish Pepper's brand as a direct-to-consumer brand for the first time.

Pepper is also continuing to invest in Pepper Asset Finance (launched in 2014) which specialises in the origination, underwriting and servicing of auto loans and equipment finance receivables. Pepper is positioning Pepper Asset Finance as an independent challenger brand in the consumer auto and equipment finance markets, thereby offering its distribution partners, including car dealers, auto brokers and commercial brokers, an alternative provider of auto and equipment finance loans away from traditional lenders in this market segment. Pepper continues to make a substantial investment in the business, principally in the form of IT systems, new credit underwriting, sales and operations employees, marketing and promotion campaigns.

In its International Division, Pepper is focused on significant new organic lending opportunities including non-conforming residential mortgage lending in the United Kingdom, point-of-sale finance and personal loan origination in Spain, residential mortgage lending and personal loan origination in South Korea, and, through its 12% equity interest in PrimeCredit, in personal loan origination in China and Hong Kong and credit cards in Hong Kong. Pepper anticipates significant organic growth across these portfolios in CY2015[21].

Servicing growth strategies

Growth in loan servicing is anticipated to continue in Pepper's key servicing markets of Ireland, the United Kingdom and Spain driven by the effect of local regulatory changes including expected higher bank capital requirements across Europe, potentially resulting in the sale or servicing outsourcing of loan books by European financial institutions. Pepper will seek to benefit from any continuing trend of deleveraging and outsourcing by financial institutions often less well equipped to manage non-performing loan portfolios.

Further acquisitive growth

Pepper will continue to pursue growth through acquisition of lending or loan servicing platforms, or loan portfolios, in asset classes and jurisdictions that Management views as complementary to Pepper's existing businesses. Pepper has a strong track record of making acquisitions and has been able to capitalise on economic conditions, regulatory changes and market volatility. Pepper is currently examining a number of potential acquisition opportunities.

2.1.3.2 Track record of growth investments

In the last three years, Pepper has made investments in a range of new businesses, products and geographies that Management expects to drive future earnings growth during the Forecast Period through successfully converting these investments into businesses generating meaningful earnings. Each of these investments builds on Pepper's strategy to be a leading specialist lender and loan servicer in each of the markets in which it operates, as shown in Table 2.

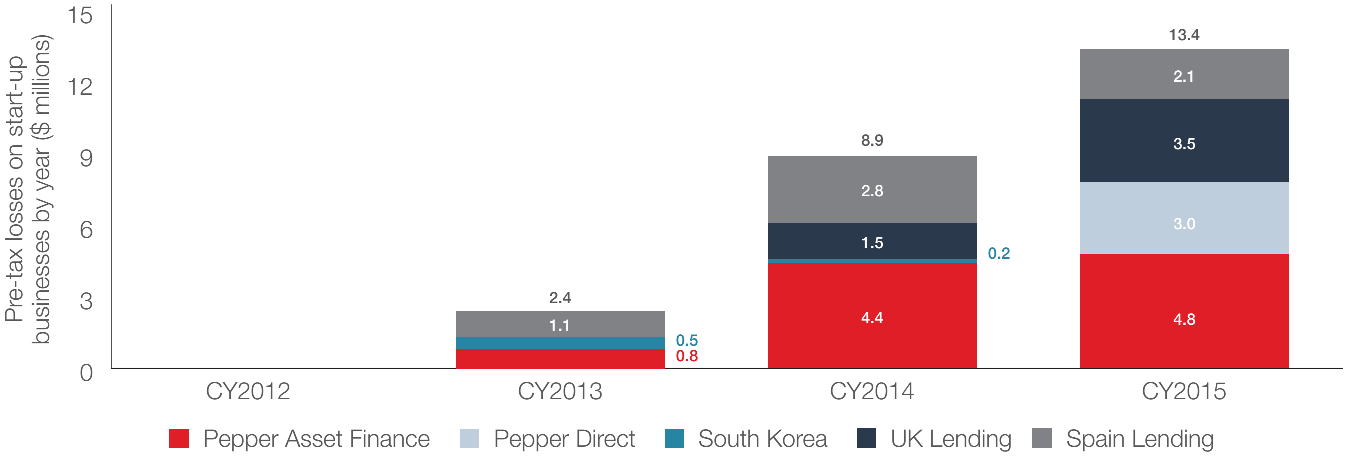
Table 2: Overview of Pepper's investments from 2013 to 2015

Segment	Status	Nature of investment to date
Spain	• Servicing platform is fully operational • Lending originations are underway	• Part of the expenditure relates to research, advisory and deal costs associated with the acquisition of the Celeris Group business • The remaining expenditure in Spain relates to expenditure incurred in launching the Spanish lending platform including marketing, recruitment and accreditation costs
United Kingdom Lending	• Originations commenced in second quarter of 2015	• Expenditure to acquire and develop new front-end loan origination system • Recruitment of personnel, marketing costs, and warehouse arrangement costs
South Korea	• Lending book is growing rapidly, with new direct sales representatives (DSRs) being hired to accommodate further growth	• Research, advisory and deal costs associated with purchase of Evergreen Savings Bank • Refurbishment of branches, establishment of sales offices to accommodate DSRs and marketing and promotional costs
Pepper Direct	• New website launched • Increased phone operators are commissioned • New sponsorships have been announced	• Search engine lead generation optimisation costs • Direct advertising costs for national retail branding campaign • Sponsorship costs
Pepper Asset Finance	• Originations have commenced • Expected to approach breakeven on a monthly basis in late CY2015	• Expenditure incurred to acquire and develop auto and equipment receivables management system • Recruitment of lending personnel and sign-on bonuses for senior staff • Marketing and promotion costs • Establishment costs for Warehouse Facilities

21. Refer to Section 3 for additional information on the Forecast Financial Information.

Figure 6 illustrates the pre-tax losses on start-up businesses by year, including Pepper Asset Finance, Pepper Direct, South Korea, United Kingdom Lending and Spain.

Figure 6: Pre-tax losses on start-up lending businesses by year



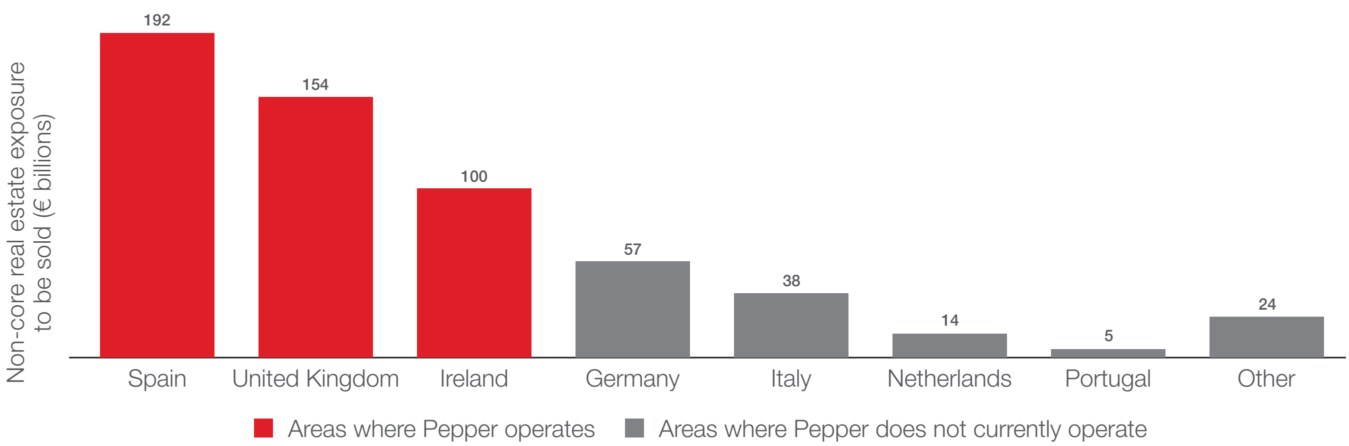
2.1.3.3 Context of global acquisition opportunities

The financial crisis has led to an increase in outsourced loan servicing with third-party servicers such as Pepper increasingly managing both performing and non-performing loan portfolios for originators and investors. This has been largely driven by four factors.

- **Build-up of arrears:** Mortgage servicing activity has been expanding in countries such as Spain, Ireland and Italy where mortgage arrears have materially increased in the aftermath of the financial crisis.
- **Loan sales:** Market trends include banks and other lenders selling part of their non-performing loan books to insurance companies, hedge funds and other financial investors who lack servicing expertise and infrastructure to manage the portfolios.
- **Rise of Challenger Banks:** Third-party servicing requirements from smaller financial institutions lacking the infrastructure, technology, and resources to deal with rising arrears along with emerging financial services companies having to deal with greater regulatory requirements.
- **Regulatory constraints:** In many jurisdictions, banks have traditionally managed their own assets rather than outsourcing the servicing function. However, since the financial crisis, many lenders have started to outsource more of their servicing activities, driven partly by regulatory compliance and capital burdens and a renewed focus on their core customers.

Figure 7 highlights the potential pipeline of non-core real estate transactions expected to be sold in key European markets.

Figure 7: Pipeline of future non-core real estate transactions expected to be sold (€ billions)



Source: Cushman & Wakefield, European Real Estate Loan Sales Market (a C&W Corporate Finance Publication), Q4 2014.

2.1.4 Pepper's business model

Pepper focuses its activities on the parts of the lending and loan servicing value chain where it can apply its core capabilities and derive the strongest risk-adjusted returns. Pepper believes its key strengths are:

- **Third-party distribution:** Broad diversified distribution platform facilitating origination through brokers, aggregators and White-Label partners along with the new Pepper Direct offering;
- **Underwriting expertise:** Detailed bespoke credit underwriting practices that enable Pepper to assess and price risk on a case-by-case basis, thereby extending appropriately priced credit to borrowers;
- **Capital efficient funding model:** Limited-recourse funding structures, access to third-party funding and a well-established securitisation platform to fund Pepper's lending activities (except for Pepper South Korea which is principally funded by customer deposits); and
- **Loan servicing experience:** Core capability of collections and arrears management, and proactive and effective customer relationship management with nearly 14 years of specialised loan servicing experience.

Figure 8: Position in the residential mortgage and consumer lending value chain

BORROWERS

Residential mortgages and customer lending

DISTRIBUTION	ORIGINATION	FUNDING	SERVICING
Third party distribution	**Upfront fees and ongoing interest income**	**Capital efficient funding**	**Income from originated and third-party portfolios**
• Third-party Brokers and White-Label • Limited direct distribution	• $4.2 billion AUM as at 31 December 2014	• ~$10.5 billion Warehouse Facilities • 17 completed residential mortgage Term Securitisations worth over $5.9 billion	• ~$24.4 billion AUM as at 31 December 2014
CHANNELS	**TARGET SEGMENTS**	**SOURCES**	**TARGET SEGMENTS**
• Aggregators • White-Label • Direct • Retailer agreements • Broker agreements	• Prime and non-conforming residential mortgages • Auto and equipment finance • Point-of-sale lending • Personal loans	• Bank Warehouse Facilities • Residential mortgage-backed securities • Corporate debt • Retail deposits funding lending in South Korea only	• Performing, non-performing and destressed loans • Commercial and residential mortgages
STRATEGY			
• Expand Broker network • Further diversify channels through development of Pepper Direct distribution	• Risk-based credit underwriting and loan pricing • Knowledge of market and customer behaviour applied to servicing business	• Term Securitisation issuance platform • Develop and maintain long-term relationships with banks and other investors	• Opportunity set across multiple jurisdictions • Collections capabilities and portfolio analysis

Pepper's lending business primarily originates product through third-party distributors with a small but growing direct-to-consumer channel.

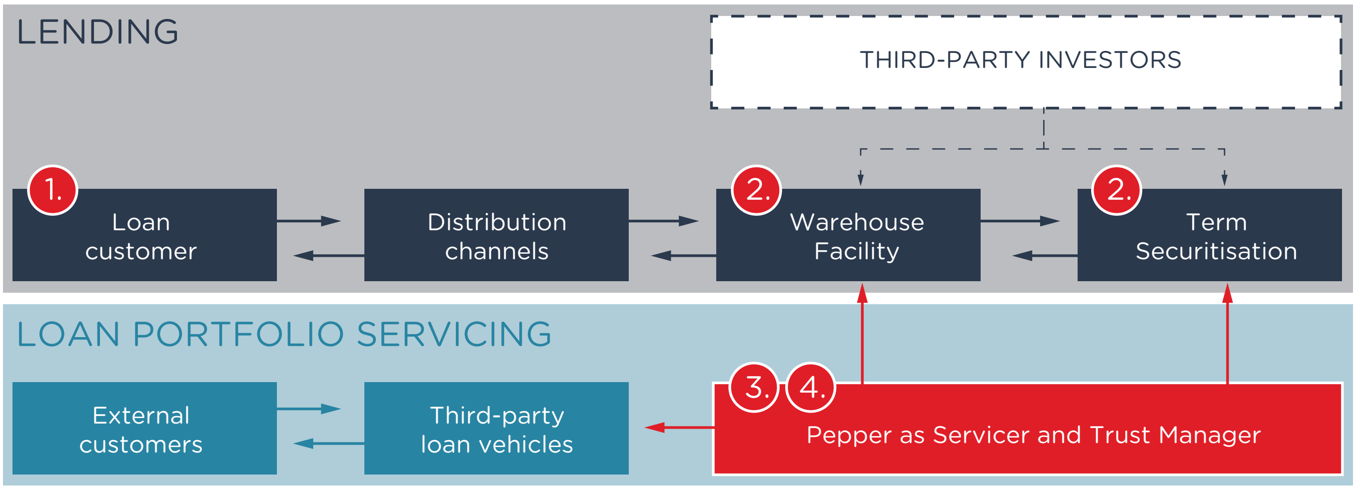
All credit decisions are made by Pepper and funding is executed through Pepper's treasury function. Pepper services both third-party portfolios and its own loan portfolios, and applies the expertise and analytics learned from servicing to continually improve credit underwriting standards and to develop new products and enter new markets.

Pepper's servicing business is capital efficient and the business model is highly scalable, with the servicing industry providing significant global growth opportunities for specialists such as Pepper due to the continued pressure on banks, particularly those based in Europe, to deleverage given capital constraints.

In addition to income generated from the lending and servicing businesses, Pepper also generates income from advisory fees in connection with CRE property and loan due diligence, management fees and other ancillary income.

Pepper's business model provides a diversified base of income generated at multiple points across the customer relationship and includes income from loan origination fees, lending income, servicing and loan administration fees, and advisory income.

Figure 9: How Pepper earns its lending and servicing income



Note: Excludes income from South Korea which, as a mutual savings bank, operates differently from Pepper's other businesses. Lending activities in South Korea use retail customer deposits to fund originations, thus income is principally earned as net interest margin only.

Table 3: Pepper's lending and servicing income collection points

1.	**Loan origination fees**	• Consists of settlement fees and post-settlement fees on new loan originations. • Mortgage risk fees are also charged to certain borrowers on settlement to cover risk associated with the origination of uninsured mortgage loans.
2.	**Lending income**	• Primarily consists of Pepper's share of net income distributed from limited-recourse Funding Vehicles (being Funding Vehicle income net of expenses) where Pepper holds residual income units, net interest revenue generated from Pepper's investments in Equity Notes within Pepper-originated, Pepper-acquired and third-party Funding Vehicles and net interest from loans held on the Pepper balance sheet (mainly in South Korea). • Lending income also includes Whole Loan Sales.
3.	**Servicing and loan administration fees**	• Contracted servicing and Funding Vehicle management fees on Pepper-originated or acquired loans held in Funding Vehicles. • Servicing fees received from third-party Funding Vehicles where Pepper is the contracted loan servicer. • Performance fees that accrue where the underlying loan portfolios held in certain Funding Vehicles meet performance benchmarks.
4.	**Advisory income**	• Advisory fees in connection with CRE property and loan due diligence. • Property-related advisory income from Pepper Property Group.

2.2 Lending

2.2.1 Dynamics in the non-conforming lending industry

The Australian non-conforming lending market is increasing in size, mainly as a result of the growing population of borrowers and tightening of credit criteria by traditional bank and other prime lenders. Pepper provides customer-focused, personalised lending solutions to borrowers who are not suited to the automated credit scoring models used by traditional bank and other prime lenders. Pepper's loan products seek to address the demand created by borrowers who do not currently meet the tightening lending criteria of traditional bank and other prime lenders. Pepper has found its potential non-conforming customers are not able to obtain home loans whether owner-occupied or investment due to adverse credit events, inability to prove savings history or consolidation of multiple debts.

The recent Financial System Inquiry in Australia raised a possible regulatory change that could result in the regulator applying higher risk weights to residential mortgage lending books. This would require major banks to hold additional equity capital and have the effect of increasing average cost of funding. The Australian Prudential Regulation Authority and ASIC have also recently been undertaking a number of thematic reviews focusing on the increasing origination levels by authorised deposit-taking institutions (ADI), including the major banks, of products such as investment property loans, interest-only loans, and Low Documentation loans to self-employed borrowers.

In this environment of increasing regulatory oversight, non-bank lenders are emerging as credible competitors to traditional bank and other prime lenders. This is particularly prevalent within targeted segments of the residential mortgage lending market where traditional bank and other prime lenders are tightening credit criteria or increasing loan pricing to manage loan concentrations within their portfolios in an effort to manage the level of regulatory capital which must be held against their respective loan books. In contrast, non-bank lenders are not required to hold the same level of equity capital against their loan books, principally reflecting the fact that they are not funded via retail customer deposits.

Pepper management has observed these trends globally, and believes there is similar potential for lending growth in each of its International lending markets, particularly Ireland, the United Kingdom, Spain, South Korea, Hong Kong and China. Management also believes that traditional banks and other prime lenders operating in each of these markets are, to varying degrees, underservicing certain customer segments due to either increasing regulatory capital constraints or changing strategic focus. The re-emergence of the non-conforming, including near-prime, product offerings for both residential mortgages and consumer finance customers is also supported by increasing liquidity in debt capital markets. The combination of these various market factors provides a strong environment for non-bank specialist lenders such as Pepper to grow in targeted market segments where Pepper is able to generate attractive risk-adjusted returns.

Within Pepper, the exception to this trend is Pepper's mutual savings bank in South Korea. Pepper Savings Bank is primarily funded through relatively inexpensive retail customer deposits, as lower liquidity in the Korean debt capital markets reduces the viability of Warehouse Facilities and Term Securitisations in funding Pepper's lending activities. Pepper's point of difference in South Korea stems from its ability to underwrite higher-yielding, non-conforming residential mortgages and unsecured personal loans, leveraging its product design capabilities developed in its other international markets (including Australia), combined with a highly experienced local management team with expertise in consumer loan origination in the South Korean market across a diverse range of local and international financial institutions.

2.2.2 Overview of Pepper's lending business

Pepper's Lending AUM was $4.2 billion[22] as at 31 December 2014. Pepper's long term success as a specialist lender is supported by the following core lending competencies.

- **Product manufacturing:** Pepper designs loan products to address market segments unmet by traditional lenders while maintaining a strict credit underwriting and risk focus during product development.
- **Risk-based underwriting:** Pepper analyses customer credit risk-based on a comprehensive review of individual circumstances and credit histories with loan pricing set to reflect risk.
- **Risk management:** Pepper holds strong underwriting expertise, proactive loan collections and portfolio servicing supported by quality assurance programs and a robust and strategic approach to capital management.

Pepper's residential mortgage and consumer lending business targets customer segments in Australia and New Zealand, and certain international markets where there is relatively less competition from the traditional banking sector and other prime lenders, thereby enabling Pepper to generate attractive risk-adjusted returns and from time to time Pepper may also acquire portfolios of loans in the same asset classes. Pepper lends in the asset classes and countries listed in Table 4.

Table 4: Overview of Pepper's lending business

		Australia and New Zealand Division	International Division					
	Products	Australia and New Zealand	Ireland	United Kingdom	Spain	South Korea	Hong Kong	China
Lending	Residential mortgages	🌶		🌶	🌶	🌶		
	Auto and equipment loans	🌶						
	Personal loans				🌶	🌶	🌶	🌶
	Point-of-sale loans				🌶			
	Credit cards						🌶	

Pepper has a particular focus on non-conforming segments (predominantly near-prime, self-employed, and small business borrowers, and borrowers with minor adverse credit or requiring debt consolidation), that are typically underserviced by traditional bank and other prime lenders. Pepper also offers asset and equipment finance through Pepper Asset Finance, which is mostly focused on the auto finance market.

22. Excludes PrimeCredit.

Table 5 outlines Pepper's residential mortgage lending offering by loan type.

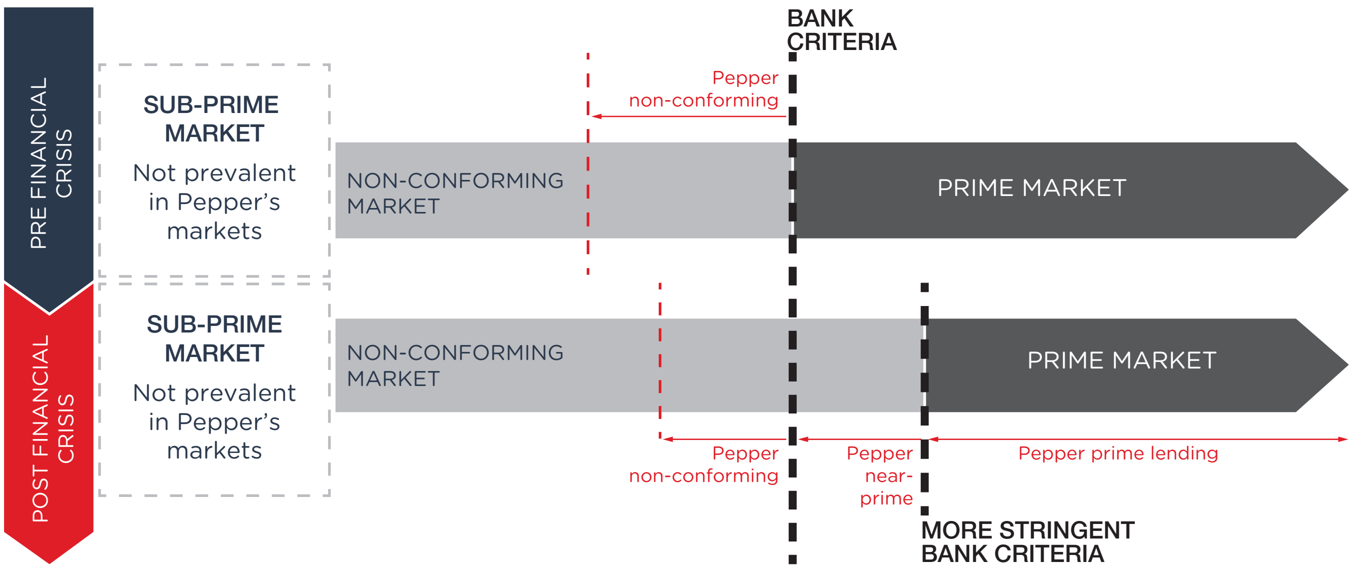
Table 5: Pepper's prime and non-conforming lending offerings in Australia

Segment	Description of market segment	Pepper's areas of focus
Prime	• Provided to high credit quality borrowers. • Pepper does not utilise lenders' mortgage insurance for credit enhancement purposes in this segment, differentiating it from competitors.	• An important product offering making Pepper a one-stop-shop for brokers and borrowers.
Non-conforming	• Provided to borrowers who do not meet standard lending criteria for prime loans. Pepper differentiates these loans into two classes (both of which it categorises as non-conforming): – **Near-prime:** Borrowers who just fail to fully meet its prime credit criteria and credit scoring models. Likely to have been considered "prime" before the financial crisis; and – **Non-conforming:** Borrowers who have experienced historical credit history impairment e.g. due to a life event such as short term loss of employment, illness or divorce. This category also includes borrowers seeking to consolidate multiple consumer debts into their residential mortgage, and self-employed borrowers seeking to utilise alternative methods of income verification to confirm their ability to satisfy loan serviceability criteria.	• This is a core offering for Pepper given its specialised approach to risk-based pricing and underwriting, and strong collections management capabilities.

Non-conforming borrowers typically have a higher rate of early prepayment and shorter average loan length than prime borrowers. This is mostly because many non-conforming borrowers are able to refinance into the prime market after a period of time, reflecting rehabilitation of their credit profile.

As illustrated in Figure 10, the global lending market has adjusted since the financial crisis in 2008 to 2010, with Pepper's addressable market expanding primarily due to a tightening of credit provision by traditional banks and other prime lenders, with Pepper now providing loan products to borrowers who may have previously been considered prime by traditional lenders.

Figure 10: Conceptual non-conforming lending market since the financial crisis



2.2.3 Specialist lending capabilities

As Pepper is a specialist residential mortgage and consumer lender, Management believes that the following attributes differentiate Pepper both in Australia and New Zealand, and internationally:

- **Experienced senior management team:** Led by Michael Culhane and Patrick Tuttle, senior Management encompasses backgrounds in general corporate management, risk-based credit underwriting, enterprise risk management, treasury, financial accounting, investment banking, structured finance, securitisation, sales and distribution, product and brand marketing, primary and special loan servicing, information technology, and mergers and acquisitions;
- **Comprehensive understanding of consumer credit risk:** Pepper possesses expertise in pricing risk to deliver attractive risk-adjusted returns without reliance on external underwriting support (e.g. lenders' mortgage insurance) for Pepper-originated loan products;
- **Ability to identify opportunities in underserviced market segments:** Pepper has targeted market and loan product segments which traditional bank and other prime lenders have typically underserviced or have recently pulled back from, due to tightening credit criteria and regulatory capital constraints following the financial crisis;
- **Customer-focused, personalised lending solutions:** Pepper applies flexible lending criteria to a broad range of unconventional circumstances, such as self-employed borrowers seeking alternative income verification products to satisfy loan serviceability requirements; borrowers seeking to consolidate multiple consumer debts into their residential mortgage to achieve more manageable monthly repayments; and borrowers with adverse credit histories seeking a second chance;
- **Established track-record of robust investments:** Pepper has sustained significant upfront and ongoing investments in new lending and distribution platforms across target markets, such as Pepper Asset Finance, Pepper Direct, United Kingdom Lending and Spain Lending;
- **Strong multi-jurisdictional expertise:** Pepper is able to export its expertise across its global management team, with understanding of product development, credit policy development, securitised funding, product and brand marketing, and execution of bespoke sales and distribution strategies;
- **Reputation and corporate culture:** Pepper aims to have a strong reputation with its distribution partners, funders, debt investors, loan customers and employees including to be recognised for its can-do attitude, high standards of employee integrity, corporate transparency, and industry-leading broker and customer service standards including highly efficient loan application and credit approval processes;
- **Diverse product offering:** Pepper has the ability to offer brokers and White-Label distribution partners the full suite of prime and non-conforming (including near-prime) residential mortgage products to satisfy the requirements of a diverse range of potential customers with inherently different credit characteristics;
- **Specialised credit assessment:** Pepper has expertise in granular credit assessment of loan applications for bespoke credit circumstances not easily resolved through automated credit scoring models;
- **Deep, long term wholesale funding relationships:** Pepper has cultivated valuable long term relationships across multiple jurisdictions with major institutional banks, global investment banks, and professional mezzanine debt and fixed income investors;
- **Strong historic loan performance:** Pepper has achieved positive run-rate arrears levels and realised loan losses for a range of products and through the cycle;
- **Highly flexible IT origination platforms:** Pepper's IT origination platforms are tailored to local regulatory environments with strong straight-through loan application processing capabilities, including automated decisioning for in-principle loan approvals; and
- **Broad multi-channel distribution channels:** Pepper's distribution channels include direct-to-consumer (website, telesales, direct marketing and DSRs), national broker, retailer and dealer networks, and select White-Label partners with no expensive bricks-and-mortar shop fronts or branch networks. Pepper provides leading broker and non-conforming loan product education which empowers distribution partners to write more non-conforming loans.

2.3 Loan servicing

2.3.1 Dynamics in the loan servicing industry

Pepper's loan servicing business was a beneficiary of the 2008-2010 financial crisis and is continuing to be driven by bank balance sheet deleveraging, particularly in Ireland, the United Kingdom and Spain, and continued outsourcing of loan management by incumbent European banks under pressure from local regulators to improve their collections management capabilities, customer service processes and IT systems. Loan servicing opportunities are also arising as new Challenger Banks continue to seek cost-effective, specialist outsourcing providers with appropriate regulatory and compliance infrastructure already in place.

The bank balance sheet deleveraging trend in Ireland, the United Kingdom and Spain is continuing to deliver a pipeline of loan portfolios which are currently trading or coming to market in the near term. Many of these non-performing loan portfolios present significant loan servicing opportunities for Pepper, in asset types which Pepper targets including residential mortgages, investor mortgages and small-balance CRE loans. There are also opportunities for Pepper in the secondary trade loan portfolio market, where early stage distressed investors seek to sell their portfolios at a profit, typically in the following circumstances:

- previously non-performing loan pools have improved to become re-performing; or
- specific portions of loan portfolios are traded to investors who are able to attribute enhanced value relative to the early stage investor, due to particular borrower or asset characteristics.

Due to the heightened level of loan portfolio trading particularly in the secondary market, Pepper has significant potential future servicing opportunities where new investors, in most cases, do not have captive servicing solutions.

Pepper has identified a potential opportunity to service loan books originated by a range of financial institutions operating in Pepper's core markets. As fundamental issues with the loan books are coming to light, especially in the context of heightening regulatory burdens, these financial institutions are recognising the importance of additional expertise, particularly with regards to IT capabilities, that a specialist loan servicer can provide.

In Ireland specifically, Management has identified new lenders establishing bespoke lending platforms in order to originate and gain exposure to higher-yielding consumer loan products. The majority of these new entrants will require a third-party servicer to help manage their portfolio. Management believes that in certain situations, there will be a more comprehensive White-Label opportunity where the new entrants simply arrange the funding and seek a third-party such as Pepper to manage the origination, underwriting and servicing of the loan portfolio.

2.3.2 Overview of Pepper's servicing business

Loan servicing involves the management and administration of loans including customer service, collection of payments, remittance of payments to securitisation vehicles, maintenance of payment records and loan balances, and the management of arrears from early stage delinquencies through to executing foreclosures. Servicing is provided to the owners of the loan portfolios, and in the case of Pepper, servicing includes loans originated by Pepper and loans acquired by third parties who appoint Pepper under servicing contracts. Servicing of CRE loans also includes regular reviews of borrowers, tenants and underlying properties.

Table 6: Overview of Pepper's loan servicing business

	Products	Australia and New Zealand		Ireland	United Kingdom	Spain	South Korea	Hong Kong	China
Lending	Own-originated	🌶️			🌶️	🌶️	🌶️	🌶️	🌶️
	Third-party	🌶️	🌶️	🌶️	🌶️	🌶️			

Over the last 14 years, Pepper's loan servicing business has grown into an international scale platform with $24.4 billion of Servicing AUM[23] as at 31 December 2014. The loan servicing business is highly scalable, does not require significant capital to operate or grow and delivers a strong recurring income base for Pepper.

Pepper occasionally invests relatively small amounts of capital alongside partners who are acquiring loan portfolios, to strengthen the alignment of interests.

Pepper's loan servicing capabilities cover multiple asset classes, loan types and servicing relationships.

As summarised in Table 7, Pepper's servicing capabilities support its lending business as the information gained from servicing is used to enhance product design, credit underwriting practices and risk-based loan pricing and therefore minimise loan losses.

Pepper has developed and maintained the following core competencies that have supported its success:

- **Application of portfolio analytics:** Pepper analyses loan portfolios and devises customised strategies to service discrete pools of assets and maximise returns;
- **Lender's mind-set:** Pepper utilises its lending experience and its proprietary strategies for loan management to service portfolios in a manner that minimises arrears, maximises cash collections and mitigates loan losses;
- **Aligned interests:** Pepper has a demonstrated willingness to align its economic interests with those of its strategic partners, through contracts linking income levels with the underlying performance of portfolios under Pepper's management; and
- **Cross border presence:** Given its scaled servicing presence in a number of countries, Pepper is able to share its successful servicing techniques and technologies, and leverage its strategic partner relationships.

Table 7: Pepper's capabilities in loan servicing

Servicer role	• **Master servicer:** Acts on behalf of a trustee of a Funding Vehicle or Term Securitisation for the benefit of securityholders overseeing sub-servicers. • **Primary servicer:** Services Pepper-originated and third-party owned loans, while principally encompassing customer service and early stage arrears management in a basic customer service capacity. • **Special servicer:** Servicing of Pepper-originated and third-party owned loans, primarily focused on managing more advanced stage arrears, borrower hardship, security enforcement, asset sale and loan recovery processes. • **Back-up servicer:** Appointed typically by banks to provide standby servicing activities to other lenders or loan books and be available to assume a servicing role in the event of servicer failure.
Credit expertise	• Pepper manages loan books across the full spectrum of performance quality. • Pepper's team has a depth of experience across performing, non-performing and distressed loans. • Pepper's servicing expertise has assisted in generating returns on portfolios originated or acquired by Pepper or by its third-party partners.

23. Excludes PrimeCredit.

2.3.3 Tailored collections strategy

Pepper has a bespoke approach to collections and arrears management which focuses on early detection and quick response times. The credit and collections areas of the business also focus on identifying trends in portfolio performance which can be fed back into underwriting criteria (where applicable) to drive improvements in Pepper-originated loan performance over time.

Pepper's collections strategy are concentrated on maximising collections with a proactive telephone contact strategy employed where borrowers are generally contacted within 24 hours of a missed payment.

Highly trained collectors focus on developing a relationship with the borrower, establishing the cause of the financial hardship (where applicable), examining the borrower's financial circumstances and agreeing a rehabilitation plan.

In its mortgage servicing business in Australia, a Pepper collector is allocated to a borrower from the first point of contact following default until the account is resolved. This strategy builds a level of trust and understanding between collector and borrower and to allow the Pepper collector to discuss difficult issues with the borrower. Litigation is only used where borrowers fail to respond to contact or if they do not meet their promises to pay, in which case Pepper seeks to move quickly to resolve issues. Pepper employs experienced property presenters for any property disposals in order to achieve enhanced realisation sale outcomes on troubled portfolios.

Pepper's IT systems support the operation of its highly efficient collections unit with text messaging used as an efficient method of borrower contact and telephony automatically directs the borrower to their allocated collector. Reporting allows Management to have a detailed overview of the collections position and to adjust collections strategies accordingly.

Pepper's monthly quality assurance regime includes reviews of collectors' telephone conversations with borrowers, their file notes, an analysis of hardship requests and their outcomes.

2.3.4 Servicing and collections case study

An example of Pepper's collections management capabilities is demonstrated through the significant reduction in arrears in a major mortgage portfolio following the acquisition and subsequent servicing by Pepper, as shown in Table 8.

Table 8: Comparison of performance of major loan portfolio pre- and post-acquisition

	Australia prime		Australia non-conforming		New Zealand	
Arrears %	**August 2011**	**December 2014**	**August 2011**	**December 2014**	**August 2011**	**December 2014**
30-59 days	3.18%	1.47%	5.56%	4.54%	3.71%	2.81%
60-89 days	1.51%	0.68%	2.60%	1.07%	2.19%	0.65%
90+ days	4.58%	2.15%	22.07%	5.23%	6.64%	2.46%
Total 30+ arrears	**9.26%**	**4.30%**	**30.23%**	**10.84%**	**12.54%**	**5.93%**

2.3.5 Specialist servicing capabilities

As a specialist loan servicer, Management believes that the following attributes differentiate Pepper in Australia and New Zealand, and internationally:

- **Lender's mind-set:** Pepper's ability to apply a lender's mind-set to post-settlement loan servicing, customer service, collections and asset recovery based on its understanding of credit risk and borrower behaviour enables Pepper to achieve performance outcomes for loan portfolios;
- **Experienced senior management teams:** In all of Pepper's markets, Management has developed their skills through prior employment with a range of commercial banks, financial institutions and non-bank lenders;
- **Scalable loan servicing platforms and IT systems:** In each jurisdiction, Pepper has an ability to deliver substantial operational leverage as it grows Servicing AUM;
- **Independent loan servicer ratings:** Pepper has received servicer ratings from Standard & Poor's and Fitch for its loan servicing operations in Australia, Ireland and the United Kingdom;
- **Operational experience:** Pepper has experience across a diverse range of asset classes, including performing and non-performing residential and commercial mortgages, auto and equipment finance receivables, and unsecured personal loans and point-of-sale finance;
- **Investor relations focus:** Pepper has a diversified client base across banks, financial institutions, institutional investors, global hedge funds, and specialist credit and fixed income funds;
- **Portfolio analytics:** Pepper's portfolio due diligence and onboarding procedures provide investor clients with valuable insights for determining underlying portfolio valuation and portfolio migration costs;
- **Alignment of interests with those of investors:** Pepper's has the ability and is willing to deploy capital alongside investors to deliver an appropriate alignment of interest between itself and its major servicing clients;
- **Deeply ingrained regulatory and compliance culture:** Pepper understands that underlying regulatory obligations are always at the heart of workflow processes embedded in core operating platforms. This approach has led to the creation of leading, proprietary IT solutions in all of Pepper's core markets;
- **Unique offering:** Pepper is uniquely positioned as an independent pan-European loan servicing platform capable of managing performing and non-performing loan books across a diverse range of asset classes;
- **Relationship-based loan collections philosophy:** Pepper focuses on putting the customer first, while delivering strong loan portfolio performance relative to its loan servicing competitors; and
- **Value-added product and service offering:** Pepper is not a business process outsourcing (which involves contracting operations and responsibilities of specific business processes to third-party service providers) platform; it seeks to add genuine value at all stages of the loan servicing lifecycle including initial loan book due diligence, onboarding, routine cash collections and customer service, advice on loan hardship and workout strategies, final loan discharge and asset disposition where applicable.

2.4 Advisory

In July 2012, Pepper Property Group was formed when Pepper acquired Grant Samuel's real estate advisory business. Pepper Property Group is an independent real estate investment and advisory group that provides integrated property and capital solutions for corporations, investors and developers.

Pepper applies its expertise in the following key product areas:

- **Occupier advisory:** Tenancy and relocation planning and strategy, workplace solutions and tenant advisory and representation;
- **Real estate capital:** Debt raising, equity raising, restructuring and equity joint venture advisory services; and
- **Sales and acquisitions:** Transaction advice and representation, loan portfolios, asset management and development advice.

2.5 Pepper's Australia and New Zealand Division

Table 9: Snapshot of Pepper in Australia and New Zealand

Year of entry	• Established in 2000 and commenced lending in March 2001.
AUM	• AUM (December 2014): $4.9 billion.
Strategy	• Capitalise on market opportunities in the non-conforming (including near-prime) and prime residential mortgage lending segments. • Diversify and grow through the expansion of Pepper Asset Finance and other new products. • Target servicing opportunities to leverage existing capabilities with limited incremental capital usage.
Growth opportunities	• Ongoing withdrawal by traditional lenders from non-conforming lending markets is expected to continue, broadening the scope of potential borrowers for Pepper. • Expand existing third-party distribution channels and also access borrowers directly, through the recently launched Pepper Direct distribution channel.

Pepper was founded in 2000 as a specialist residential mortgage lender in Australia. Through a combination of organic growth and targeted acquisitions, Pepper has grown to become a specialist lending and loan servicing group targeting a number of asset classes in Australia and New Zealand.

Pepper has built platform scale in Australia through targeted acquisitions, including the acquisition of GE Capital's Home Lending business in Australia and New Zealand (approximately $5 billion portfolio size) in 2011 where Pepper was able to pull together a consortium and deliver to GE Capital, a highly motivated seller, a compelling solution. Building from this base, Pepper has grown organically and diversified its originated loan book across prime, near-prime and non-conforming mortgage lending, and auto and equipment finance. The breakdown of Pepper's income and AUM in Australia and New Zealand is reflected in Figure 11 and Figure 12.

Breakdown of Pepper's Australia and New Zealand Division

Figure 11: Income breakdown ($ millions)

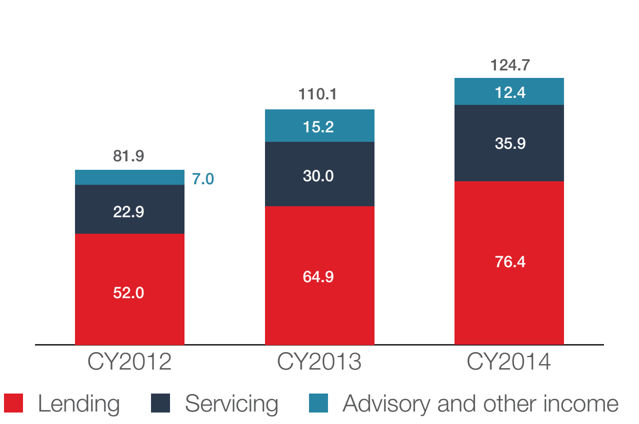
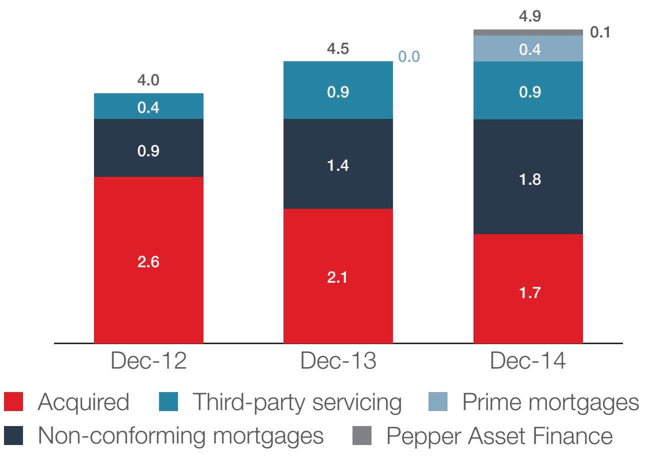


Figure 12: AUM breakdown ($ billions)



2.5.1 Pepper in Australia

2.5.1.1 Industry overview in Australia

2.5.1.1.1 Australian residential mortgage lending overview

The Australian residential mortgage lending sector is relatively consolidated, with most lenders also servicing their own portfolios.

The prime residential mortgage market is broadly dominated by traditional bank and other prime lenders. Prime loans are only available to borrowers who can demonstrate compliance with the robust criteria of traditional lenders and mortgage insurers, which relate to the borrower's creditworthiness, loan and property conditions.

In the non-conforming mortgage market, mortgages are secured against residential properties where the borrower is unable to satisfy the criteria of traditional lenders or mortgage insurers. Non-conforming loans are typically extended to the following types of customers:

- applicants with characteristics such as irregular income, erratic saving patterns, an inability to satisfactorily demonstrate genuine savings for a deposit, having too many debts in need of consolidation, self-employed and unable to provide the traditional full financial statements or tax returns, or customers evidencing combinations of these situations; and/or
- applicants impacted by short term life events such as unemployment, illness or divorce which has led to some form of credit impairment.

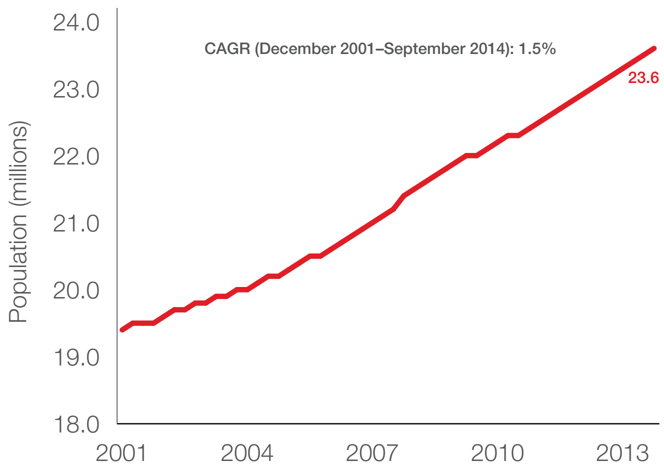
Pepper's key competitors in the Australian non-conforming mortgage lending market include Liberty Financial, La Trobe Financial, Resimac Limited and, historically, Bluestone Mortgages. Based on available current aggregator market share reports, Pepper estimates it has an approximate 35 to 40% share of all new non-conforming mortgage and non-mortgage insured prime lending originated in Australia via the mortgage broker distribution network in isolation against its key competitors (Liberty Financial, La Trobe Financial, Resimac Limited and Bluestone Mortgages). The Pepper market share figures presented on the aggregator reports exclude the volume originated via its White-Label partners (e.g. Homeloans Limited, Australian First Mortgage, Better Mortgage Management and Yellow Brick Road). Prior to the financial crisis, Pepper had a number of other direct competitors including Mobius Financial, GMAC-RFC, Seiza Mortgages and GE Mortgage Solutions. Pepper has observed an increase in competitive dynamics in recent periods and has reacted accordingly by increasing the size of the sales team and carrying out various promotions to meet the market and maintain share of wallet with the brokers.

According to the Australian Bureau of Statistics, the value of outstanding housing loans financed by ADIs in Australia was $1.3 trillion as at January 2015.

Several key factors drive the residential mortgage lending market in Australia.

- **Housing demand:** Mortgage activity has been supported by an underlying level of demand for housing that has increased with population growth, net migration into Australia, historically low interest rates, low unemployment and strong property valuations.

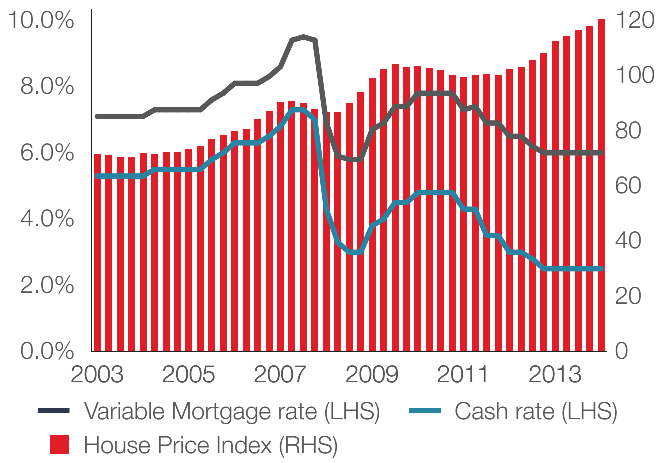
Figure 13: Population growth



Source: Population statistics as reported by Australian Bureau of Statistics

Note: Population data for December 2014 not yet published.

Figure 14: Interest rate versus price index

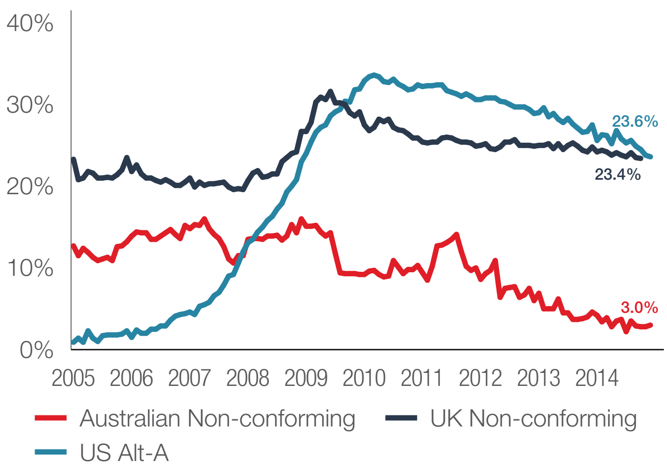


Source: House price index by Australian Bureau of Statistics; cash rate and variable mortgage rate published by Reserve Bank of Australia

Note: House price index data not published by Australia Bureau of Statistics prior to 2003.

- **Low levels of delinquencies:** The Australian residential mortgage market has sustained low delinquencies over a long period of time during which the Australian market has benefited from relatively stable house prices. Figure 15 demonstrates the relatively strong performance of the Australian non-conforming mortgage sector in Australia compared with that in other jurisdictions that has been supported by low unemployment rates, low interest rates, a strong economy, strong property valuations and growth in household disposable income throughout the financial crisis.

Figure 15: Non-conforming delinquencies in Australia relative to the United States and the United Kingdom



Source: Moody's, Australian Non-conforming Loans published on 25 August 2014

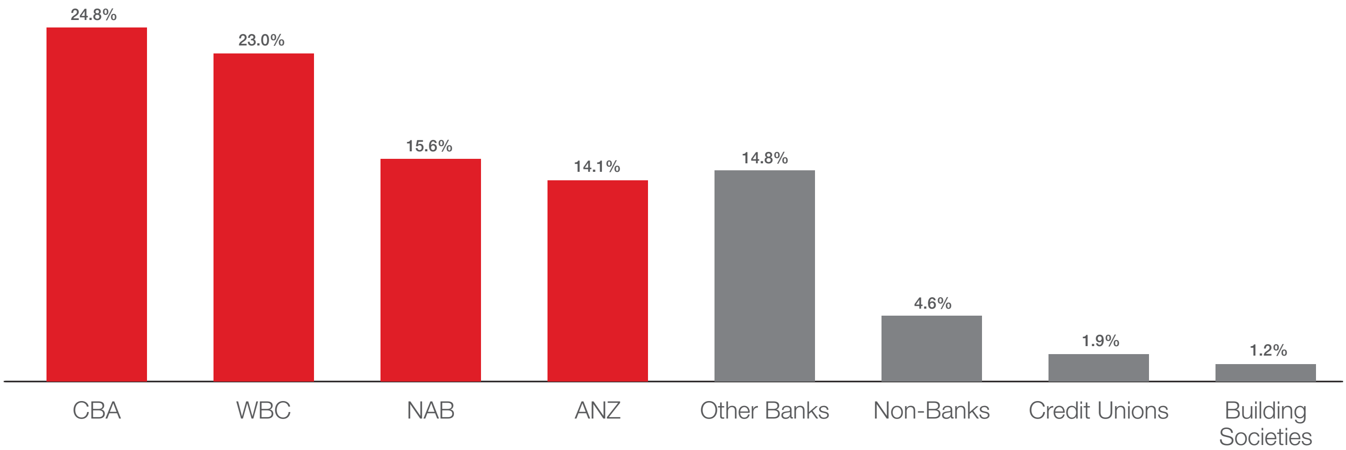
Note: Reported data only available since 2005.

Figure 16: Australian unemployment rate

Source: Unemployment rate statistics as published by Australian Bureau of Statistics

- **Tightening of credit standards:** Increased regulation for banks and deposit-taking institutions has caused traditional bank and other prime lenders to tighten underwriting standards, including imposing more conservative LVRs, loan sizes and credit history requirements. This has caused previously prime borrowers to be now defined as non-conforming that has lifted the overall quality of non-conforming loans generated in Australia.
- **Lender consolidation:** Since 2010, the number of participants in the non-conforming lending market has reduced, with some challenger brands acquired by the major banks and other non-conforming lenders exiting the market. The current size of the major banks in the Australian market is illustrated in Figure 17 that shows a high concentration of credit provided by these lenders.

Figure 17: Housing credit breakdown by lender type as at 31 January 2015

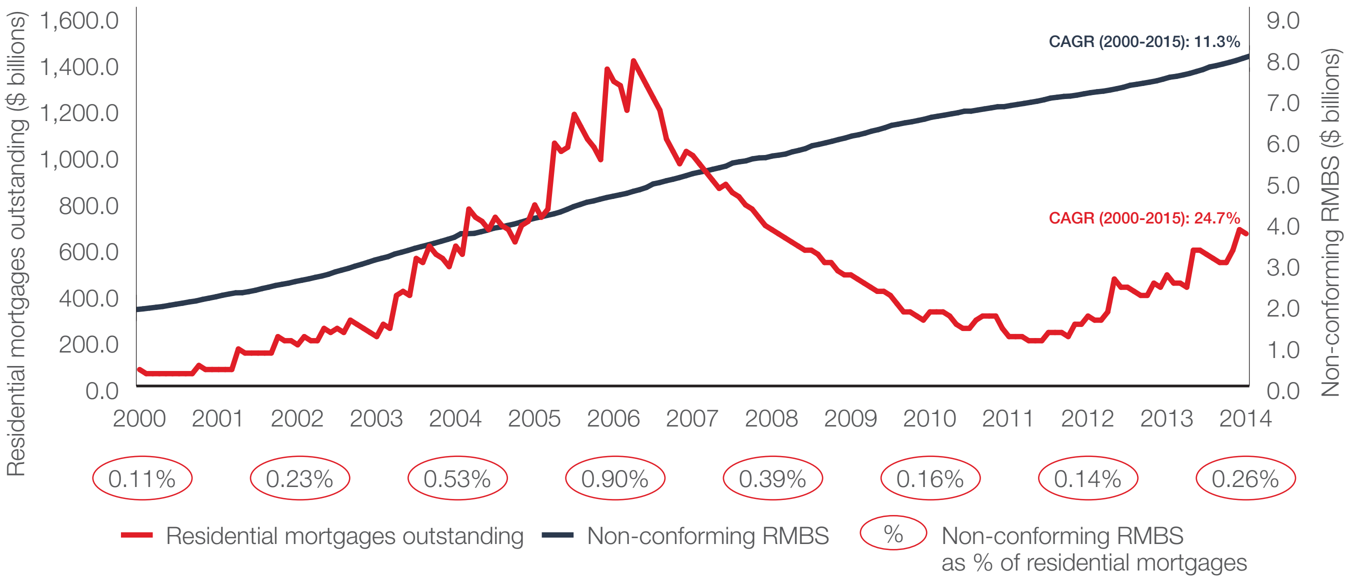


Source: *Monthly Banking Statistics published by Australian Prudential Regulation Authority, Lending and Credit Aggregates published by Reserve Bank of Australia Statistics.*

Note: *"CBA" stands for Commonwealth Bank of Australia, "WBC" stands for Westpac Banking Corporation, "NAB" stands for National Australia Bank and "ANZ" stands for Australia and New Zealand Banking Group.*

- **Re-emergence of residential mortgage-backed securities issuance:** As depicted in Figure 18, Australia's non-conforming residential mortgage-backed securities market has grown strongly over the last three years. The Australian market has supported 10 non-conforming residential mortgage-backed securities transactions totalling $3.0 billion of new issuance since January 2013 (twice the number of transactions which were issued between 2007 and 2013). In 2014, there were 35 Australian residential mortgage-backed securities issuances totalling $30.8 billion, an increase of 18% compared to 32 issuances in 2013 totalling $26.1 billion. The majority of this volume was issued by ADIs; however, non-ADI issuers also experienced strong growth with residential mortgage-backed securities issuance increasing by 30% year on year to $6.7 billion. Non-conforming issuance comprised $2.2 billion of the total, which was a $258 million (14%) increase on 2013.

Figure 18: Australia non-conforming residential mortgage-backed securities market (RMBS)



Source: Reserve Bank of Australia Statistics, Standard & Poor's

Pepper views the alternate documentation/income verification loan market as a growing segment in Australia as major lenders focus on the traditional prime lending market that they can target with standardised credit assessment criteria applied over large volumes of loans. This contrasts with the non-conforming mortgage market that requires a forensic approach to underwriting to appropriately analyse the quality of loans written.

Comprehensive Credit Reporting will further enhance Pepper's ability to assess risk and underwrite non-conforming residential mortgage loans. Since March 2014, changes in the *Privacy (Enabling Privacy Protection) Act 2012* (Cth) have allowed the collection and sharing of more comprehensive data whereas prior to this, only collection of negative data (such as missed payments) was allowed. Management believes that the increased availability of information will have a positive impact on specialist lenders who will gain beneficial new information whereas major banks already have access to large amounts of positive credit data from their existing customer networks.

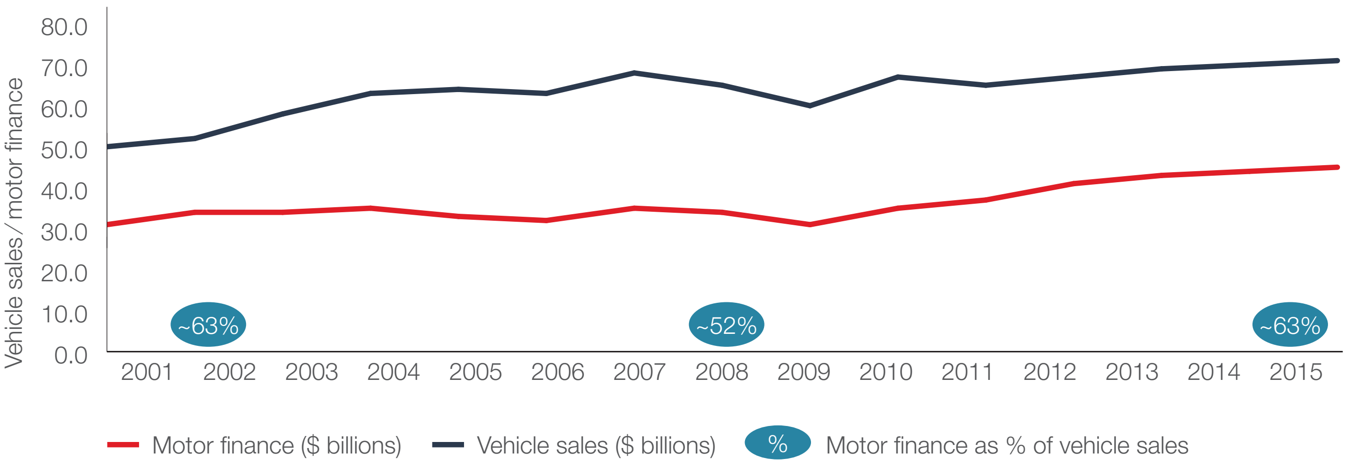
2.5.1.1.2 Australian asset finance industry overview

Asset finance is involved in an estimated 40%[24] of all capital expenditure on equipment in Australia, making the industry an integral component in the Australian economy. Since 2008, many niche providers of asset finance have withdrawn from the sector, creating opportunities for specialist participants such as Pepper to enter the market.

In 2014, the Australian motor vehicle financing market was estimated to be ~$47 billion.[25] Motor vehicle financing has performed strongly in recent years, supported by continued strong economic performance of the Australian economy, consumer spending and vehicle demand. Figure 19 shows the key growth rate and key market dynamics in the pre- and post-financial crisis periods.

24. The White Clarke Group, Australia Asset and Auto Finance Country Survey 2013, 28 November 2013.
25. Australian Equipment Lessors Association (AELA) statistics published on website www.aela.asn.au 2014.

Figure 19: Overview of the Australian motor finance segment



Source: IBIS Industry Report, VFACTS, AELA Statistics

Pre-2008	2008-2010 (financial crisis)	Post-2010
• Point-of-sale key channel dominated by GMAC, GE Capital, Toyota, Ford Credit, Esanda (ANZ), Capital Finance (Lloyds), St George (Westpac)	• Sales and financing drop • GMAC, GE Capital and Ford Credit exit motor finance market • SME vehicle tax breaks – stimulate demand	• Financing increases and vehicle sales return to pre-financial crisis levels • Auto manufacturers enter the finance market with strong 0% finance offers • Capital Finance sold to Westpac • Macquarie Leasing acquires GMAC and Ford Credit portfolio • Pepper acquires Suncorp asset finance portfolio

Through Pepper Asset Finance, Pepper competes with both tied and non-tied providers of point-of-sale motor financing.

- Tied manufacturer financiers target customers at point-of-sale and their primary purpose is to assist manufacturers to sell more cars. They are able to package the motor vehicles with the finance to provide customers with a subsidised finance offer (e.g. 0% finance). Non-tied financiers provide point-of-sale finance to motor dealers who are not restricted to using the manufacturer's preferred financier.
- All dealers have relationships with secondary financiers for approximately one third of their point-of-sale finance business and Pepper's risk-based pricing customer segmentation provides a point of difference in this part of the market.
- Pepper's risk-based pricing model and service proposition are targeted to commercial brokers providing vehicle and equipment finance for small to medium sized business and online consumer brokers which is a strong growth segment in the car finance market.

Australian equipment finance capital expenditure is largely sourced from a few key industries including transport, mining, construction and agriculture. The volume of the Australian plant and equipment market in 2014 was estimated at $42 billion (as at 31 December 2014)[26] and the equipment financing receivables were $92.4 billion[26] as at 31 December 2014. ~40% of Australia's equipment capital expenditure is financed through a combination of fixed term loans, leases and other financing arrangements.[26]

26. Australian Equipment Lessors Association (AELA) statistics published on website www.aela.asn.au 2014.

2.5.1.1.3 Australian servicing industry overview

The Australian outsourced loan servicing market is relatively less developed than its offshore counterparts. The major and key regional Australian banks typically service their own-originated loan portfolios internally.

Most outsourced servicing is provided by non-bank lenders that either originate loans or acquire whole loan portfolios in run-off. Outsourced loan servicing became particularly prevalent during the financial crisis in the period from 2008 to 2010 when a number of non-bank lenders exited the market. During this period, Pepper won a number of mandates to service loan portfolios on behalf of bank funders and bondholders held in Funding Vehicles and/or Term Securitisations, where the original lender had ceased business.

Pepper currently has three third-party servicing contracts in Australia with $932.4 million AUM in addition to servicing its own-originated and acquired portfolios.

Pepper's key competitors in the Australian servicing industry are AMAL Asset Management, a specialist loan receivable servicer of residential and commercial mortgages servicing AUM across Australia and New Zealand, and Unisys, a primary servicer which principally focuses on residential loan servicing for non-bank originators.

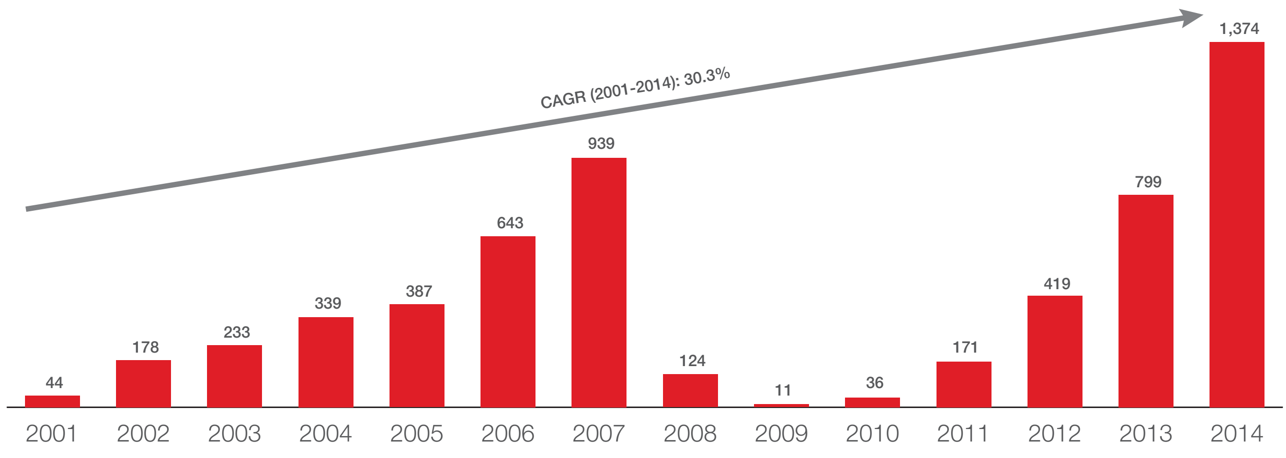
2.5.1.2 Business overview in Australia

Pepper, established in 2000, is a diversified specialist lender focused primarily on residential mortgage originations in the non-conforming and prime market segments, as well as auto and equipment finance through Pepper Asset Finance. Pepper has also diversified into loan servicing in recent years, and its capabilities and platform enable it to provide a specialised end-to-end loan management offering.

2.5.1.2.1 Mortgage lending

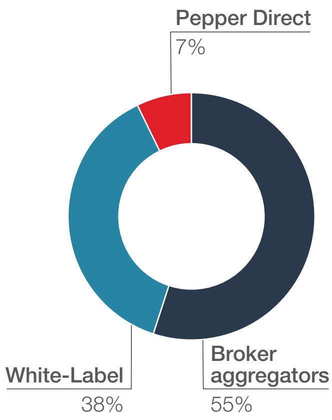
Pepper has experienced organic strong growth in residential mortgage originations through the last 14 years, with Australian mortgage origination volumes having grown at a 30% compound annual growth rate (**CAGR**) from 2001 to 2014. Although origination slowed from 2008 to 2010, the business has grown strongly over the last five years and grew 72% in CY2014 to approximately $1.4 billion of new lending. Growth in loan originations in CY2014 was driven by lending to prime, near-prime and non-conforming borrowers, distributed predominantly through intermediaries.

Figure 20: Australian mortgage origination volumes as at 31 December 2014 ($ billions)



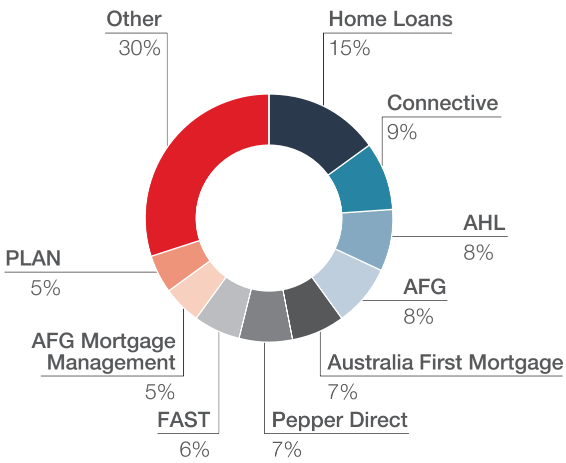
Pepper primarily distributes residential mortgage loan products through third-party channels – 55% through broker aggregators and 38% through White-Label partners, as shown in Figure 21.

Figure 21: Breakdown of Pepper's distribution channels as at 31 December 2014



Note: *Breakdown according to CY2014 dollar value of mortgage originations.*

Figure 22: Breakdown of Pepper's third-party intermediaries as at 31 December 2014



Note: *Breakdown according to CY2014 dollar value of mortgage originations through the broker aggregator distribution channel.*

Pepper has been increasing distribution penetration with continued growth in each of its distribution channels:

- **Broker aggregators:** Secured over 30 strategic partnerships providing access to ~8,000 accredited mortgage brokers including AFG, Aussie, Connective, Yellow Brick Road, Vow, PLAN, Choice, FAST and Mortgage Choice as shown in Figure 22;
- **White-Label:** Providing leading infrastructure and products to over 20 White-Label distribution partners, with groups such as HomeLoans, AFG, Yellow Brick Road and Australian First Mortgage; and
- **Direct:** Pepper has also been building new business volumes within its emerging direct-to-consumer distribution channel, Pepper Direct.

Pepper is managing the expansion of its Pepper Direct initiative carefully to avoid creating conflict within its distribution channels. Investment is being made to assist the broker channels in delivering Pepper products more efficiently, and marketing spend is focusing on increasing the level of identification of the Pepper brand within existing broker channels.

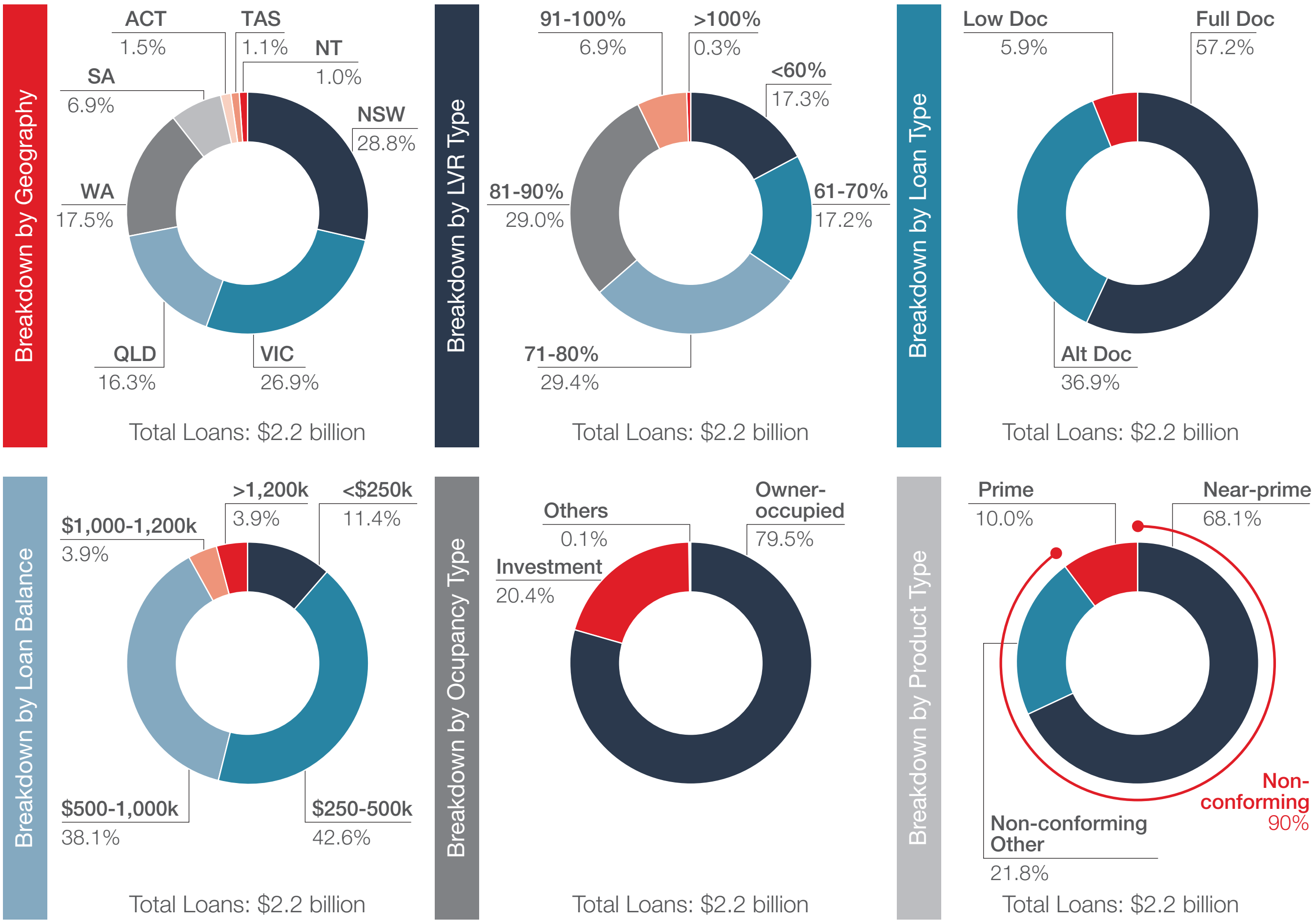
The performance of Pepper's originated loan portfolio is supported by its credit underwriting experience at the point of origination and its strong risk-based loan pricing methodology, coupled with its collections and post-settlement loan servicing capabilities.

As a specialist lender, Pepper has a deep and experienced team of loan underwriters who assess the individual characteristics of every borrower. Using credit policies and guidelines developed over 14 years, an individual risk assessment is made and the appropriate loan amount, LVR and pricing is allocated to each loan written. Automated credit scoring and assessment are not employed. Pepper's more intensive and forensic approach to credit assessment can accommodate borrower characteristics outside those accepted by traditional lenders.

Pepper also offers a select group of large brokers and mortgage managers the ability to market mortgage products using their own branding. Marketing material and loan documents carry the logo of the introducer instead of being branded Pepper. However, all credit assessment, post-settlement loan servicing and collections activities remain with Pepper. This is formally known as the Pepper White-Label channel.

Pepper's underwriting capabilities have enabled it to build a diversified lending portfolio as shown in Figure 23. The majority of Pepper's originated portfolio comprises Full Documentation loans, while the business has also had a particular focus on lending to near-prime borrowers, representing 68% of the portfolio as at 31 December 2014. Pepper has less than 10% of its portfolio exposed to loans with LVRs exceeding 90% and the majority of loans underwritten are smaller sized loans of less than $0.5 million.

Figure 23: Overview of Pepper's originated lending portfolio in Australia as at 31 December 2014



Note: "NSW" stands for New South Wales, "VIC" stands for Victoria, "QLD" stands for Queensland, "WA" stands for Western Australia, "SA" stands for South Australia, "ACT" stands for Australian Capital Territory and "TAS" stands for Tasmania. "Full Doc" stands for Full Documentation loans, "Alt Doc" stands for Alternative Documentation loans and "Low Doc" stands for Low Documentation loans.

Total loans excludes $85 million Australian acquired AUM.

More detail on Pepper's approach to collections and arrears management is set out in Section 2.3.3.

Pepper Australia periodically obtains Automated Valuation Model (AVM) reports from CoreLogic RP Data to assess the current LVRs of outstanding mortgages. This data is used as a risk management tool across the existing portfolio and as part of the ongoing management of origination credit policies. AVMs are also obtained prior to acquiring mortgage portfolios, forming part of the due diligence process. Portfolio data is shown in Table 10 that illustrates a lower LVR in Pepper's portfolio when current market values are included in the calculation.

Table 10: Snapshot of Pepper's weighted average LVRs

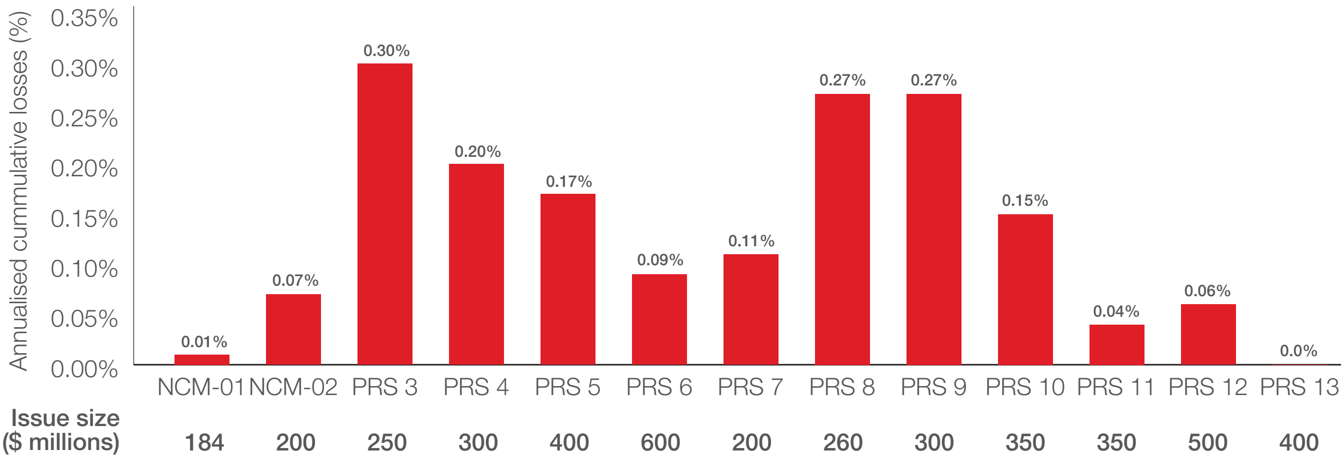
	Weighted average current LVR	Weighted average automated valuation model LVR
Pepper-originated	72.70%	67.80%
Pepper-acquired	68.40%	47.20%
Total active portfolio	**71.10%**	**60.10%**

Source: *CoreLogic RP data Automated Valuation model report (May 2015)*

Note: *Weighted Average Current LVR – Based on the outstanding loan balance as at 31 December 2014 and the valuation obtained at origination or most recent valuation available. Weighted Average Automated Valuation Model LVR – Based on the current outstanding loan balance as at 31 December 2014 and the AVM figure – AVM data supplied by CoreLogic RP Data (May 2015).*

Pepper's underwriting, servicing and arrears management expertise has been reflected in the credit performance of its originated loans with arrears and cumulative losses having remained consistently low throughout Pepper's operating history. Pepper has also improved its underwriting and risk selection criteria since 2010 and, combined with its heightened focus on near-prime loan customers, this has resulted in loss rates in recent issuances being materially lower than those in prior years.

Figure 24: Annualised cumulative losses for Pepper non-conforming residential mortgage-backed securities



Note: *PRS refers to Pepper Residential Securities Trust, refer to Section 2.7.2 for further information.*

An increased focus on the capability to service self-employed borrowers who may not be able to provide standard loan documentation such as employment history to lenders, has resulted in Pepper issuing Alternative Documentation loans by undertaking a forensic examination of a potential borrower's credit history and uses alternative sources of evidence to verify a borrower's income and to assess their expenses to determine their capacity to repay debt. This approach has been highly successful for Pepper, as evidenced by the loss rates of its Alternative Documentation loans that are below that of the overall portfolio. Table 11 illustrates the volume of loans written by Pepper from establishment of the current credit criteria in 2009 up to 2013 and compares the loss performance of Full Documentation and Alternative Documentation loans.

Table 11: Performance of Pepper's Full Documentation and Alternative Documentation loans (2009-2013)

Loan characteristics	Full Documentation	Alternative Documentation	Total
Total original balance	$837 million	$598 million	$1,43 million
Realised losses	$1.4 million	$0.6 million	$2.0 million
Loans with losses	17	7	24
Loss rate	0.17%	0.10%	0.14%

Note: Does not incorporate 2014 vintage year given insufficient time has passed for losses to arise. Losses are as at 31 December 2014.

2.5.1.2.2 Pepper Asset Finance

Pepper Asset Finance has grown since 2008 from a solid foundation in auto and equipment loan servicing complemented in 2012 by the acquisition of a portion of Suncorp's legacy auto and equipment finance portfolio.

Pepper has developed a bespoke range of commercial auto and equipment finance products supported by strong credit underwriting, customer service and loan servicing and has progressed its entry into the specialty asset finance market, particularly in the consumer auto motor and motor dealer finance segments.

Pepper Asset Finance was officially launched in November 2014 and offers a range of simple leasing and financing products for a range of different assets; its core business is focused on the following asset types:

- **Transport:** Including motor vehicles, motor bikes, light commercial, marine, trucks, caravans, trailers and buses;
- **Green goods:** Including tractors and harvesters, agricultural machines, street sweepers and garbage trucks;
- **Yellow goods:** Including forklifts, excavators, earth moving machines and construction machines; AND
- **Professional:** Including medical equipment, dental chairs and x-ray machines.

Pepper Asset Finance has seen latent market demand for an independent, service-focused lender to replace the unmet demand created by the exit of a number of asset-based financiers over the prior five years. Pepper has positioned itself as a challenger brand to its mainly bank competitors in the Australian auto and equipment finance market, offering a broader and more flexible product range based on its proprietary risk-based pricing methodology and supported by its strong relationship management and customer service ethos.

Table 12 summarises the products, distribution, underwriting and risk management capabilities of Pepper.

Table 12: Key Features of Pepper Asset Finance

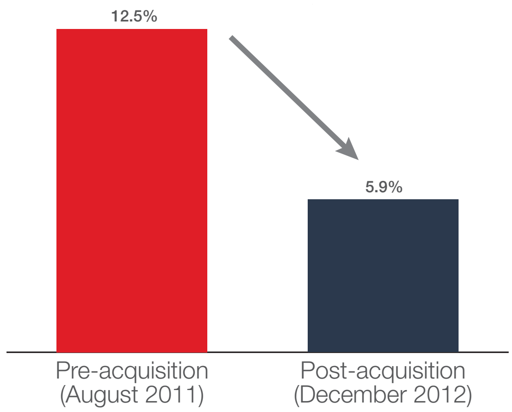
	Description
Products	• Consumer and commercial lending • Key assets financed are motor vehicles, motor bikes, caravans, commercial vehicles, yellow goods and plant and equipment • Full credit spectrum priced for risk for terms of up to seven years
Distribution channels	• Distribution currently focused on third parties including auto dealers, commercial brokers and consumer auto brokers • Mortgage brokers and the Pepper Direct channel offer an opportunity to cross-sell products to Pepper's residential mortgage customers
Underwriting and risk management	• Pepper's existing credit policies and lending standards support the credit systems and lending guidelines established within Pepper Asset Finance • Consumer and commercial products are offered to customers across a range of credit ratings • Strong quality assurance and risk surveillance procedures have been implemented to oversee ongoing loan portfolio and business unit performance

Pepper's core competencies have been transferred to the asset finance business, allowing the business to launch a suite of mainly prime products but with the ability to cater for a wider customer base than most major lenders. The same style of forensic credit assessment is used, supported by a high level of customer service. Pepper Asset Finance will be serviced by Pepper's dedicated auto and equipment collections team using Pepper's successful proactive collections approach (as detailed further in Section 2.3.3).

2.5.2 Pepper in New Zealand

Pepper's presence in New Zealand began with the acquisition of GE Capital's Australia and New Zealand residential mortgage portfolio in 2011. Pepper New Zealand's AUM was $230 million as at 31 December 2014. Pepper has managed this portfolio from its Parramatta Servicing Centre, since migration of the loan book in January 2012, demonstrating its ability to successfully adapt its Australian collections and arrears management techniques to loan portfolios originated in New Zealand.

Figure 25: 30+ days arrears of GE Capital portfolio



Pepper has a track record of successful loan servicing execution in New Zealand as shown by the performance of the GE Capital residential mortgage book in New Zealand illustrated in Figure 25. The post-acquisition performance of this portfolio significantly improved due to Pepper's ability to service the book in a proactive and effective manner, building rapport with GE's former New Zealand customers.

Although Pepper does not currently originate new residential mortgages in New Zealand, the Company considers this market to have a number of attractive fundamental growth characteristics, including:

- few players currently operating in the non-conforming residential mortgage lending sector;
- continued demand in the residential housing market and house price strength;
- regulatory scrutiny on the traditional banking sector, particularly in relation to mortgage lending; and
- robust economic and population growth.

2.6 Pepper's International Division

2.6.1 Introduction

Pepper's International Division comprises its specialist loan servicing and lending operations and commenced in Ireland in 2012, with subsequent expansion into Spain, and the United Kingdom, banking in South Korea and a 12% equity investment in PrimeCredit in Hong Kong and China. Pepper's international expansion strategy typically involves entering targeted markets through the acquisition of existing business platforms that Pepper, with the support of its highly experienced local management teams, is able to organically grow through its core loan servicing and specialist lending capabilities.

Pepper utilises its loan servicing and credit underwriting capabilities to grow and scale the businesses it has acquired and plans to typically provide both lending and loan servicing products in each market, subject in each case to market demand dynamics, leveraging the business model and expertise developed in Australia. Figure 26 depicts Pepper's income by business line and Figure 27 depicts Pepper's AUM by country within the International Division (with the exception of PrimeCredit).

Figure 26: Income breakdown ($ millions)

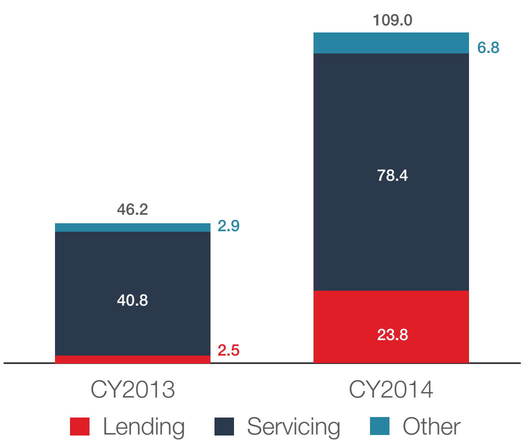
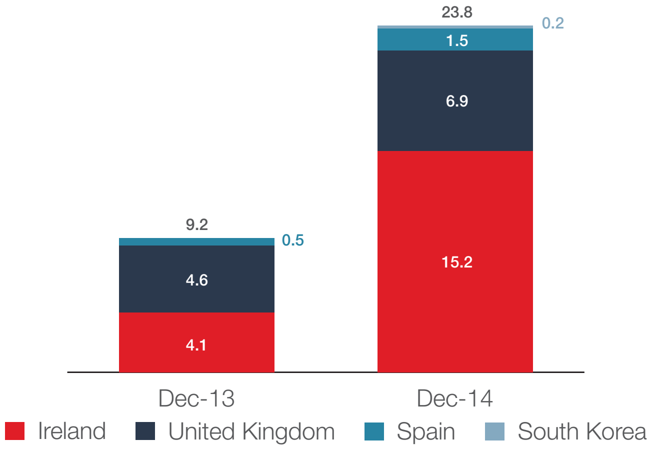


Figure 27: AUM breakdown ($ billions)



Note: Income and AUM breakdown does not include PrimeCredit.

Table 13: Summary of International Division operations

Geography	Date entered	Products
Ireland	September 2012	• Servicing of primarily non-performing residential mortgage, CRE and consumer finance portfolios
United Kingdom	September 2013	• Servicing of performing and non-performing residential mortgage and CRE portfolios • Planned origination of non-conforming residential and investor mortgage loans
South Korea	October 2013	• Origination of personal loans and residential mortgage loans • Provision of retail customer deposit products
Spain	February 2013	• Servicing of primarily non-performing residential mortgages, personal loans, residential mortgages and credit card debt • Origination of unsecured point-of-sale finance and planned origination of personal loans, debt consolidation loans and residential mortgage loans
PrimeCredit (Hong Kong and China)	May 2015	• 12% equity interest and management services contract to PrimeCredit in Hong Kong and Shenzhen • Origination of personal loans and credit card debt

2.6.2 Portfolio loan sale trends in Europe

Pepper has to date taken, and will seek to continue to take, advantage of opportunities arising from the deleveraging of the European banking sector by securing loan servicing contracts with asset acquirers and banks seeking to outsource loan servicing in response to continuing regulatory change. In addition, Pepper intends to apply its servicing experience to build specialist targeted lending businesses in select regions and market segments as market conditions permit.

According to the PricewaterhouseCoopers Portfolio Advisory Group's Q4 2014 Market Update, Europe had over €90 billion of loans marketed for sale in 2014, an annual increase of over 40% and a record year. Figures 28 and 29 illustrate the continued growth expected in 2015.

Ireland has been the most active portfolio transaction market in Europe in 2014, while the United Kingdom market saw Lloyds, Nationwide and RBS all sell over €1 billion of assets in late 2014. In 2014, CRE was the most traded asset class, driven largely by the Irish and German markets, which together contributed over €30 billion of CRE transactions in the year, while retail transactions also remained an actively traded asset class. PricewaterhouseCoopers anticipates 2015 to be an even more active portfolio transaction period, driven by continued bank restructuring (in part driven by the European Asset Quality Review) and significant demand from a broad investor pool with large amounts of committed funding.

Figure 28: European transactions by country

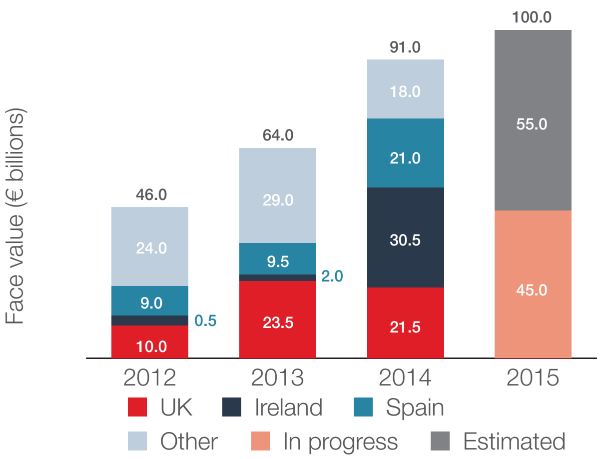
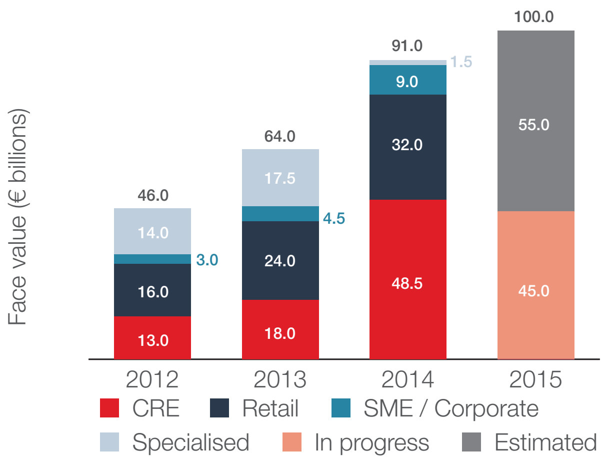


Figure 29: European transactions by loan portfolios



Source: PricewaterhouseCoopers Portfolio Advisory Group Market Update report published in January 2015

2.6.3 Pepper in Ireland

Table 14: Snapshot of Pepper in Ireland

Year of entry	• Started operations in September 2012 through the acquisition of GE Capital's Irish residential mortgage portfolio and captive loan servicing platform.
AUM	• AUM (September 2012): $0.9 billion. • AUM (December 2014): $15.2 billion.
Strategy	• Maintain position as the preferred loan servicer to acquirers of auctioned non-core bank assets and a preferred outsource provider to Irish banks, specialising in both residential and commercial mortgage portfolios.
Growth opportunities	• Leverage servicing platform in Ireland to originate mortgage loans by deploying a similar approach to Pepper's Australian model. • Continue to build scale in the Irish market to take advantage of operating leverage that can lead to improved servicing margins and business profitability. • Potential to establish a lending business in Ireland.

2.6.3.1 Industry overview in Ireland

The mortgage servicing industry is undergoing a transformation in Ireland particularly as retail banks continue to sell non-core assets and as challenger financiers enter the market. Servicing participants, who can provide an end-to-end institutional and independent servicing solution, are well placed to provide servicing to acquirers of loan portfolios and banks looking for an outsourced solution.

Key themes impacting the loan servicing industry in Ireland are set out below.

- **High level of impaired loans:** Despite some recent reduction in arrears levels, mortgage arrears remain high and the number of cases of very long term arrears (720+ days) continues to increase. Managing loan arrears is important for lenders in order to support growth and recovery in the broader economy. Lenders are required to report compliance with mortgage arrears resolution targets for which there has been an increasing reliance on servicing specialists.
- **Large number of loan portfolio sales:** Since 2012, there has been a significant number of Irish non-performing loan portfolio sales, which Pepper expects to continue. This deleveraging is partly driven by regulatory capital pressures on European banks and is expected to drive considerable growth in the mortgage servicing sector in Ireland, with the National Asset Management Agency potentially offloading more of their non-performing loan exposures. In addition to portfolio sales, a number of Irish financial institutions have either outsourced, or are considering outsourcing, the management of portions of their residential and CRE mortgage portfolios.
- **Significant level of investor interest in Irish non-performing loan portfolios:** International private equity and distressed credit investors have been major participants in loan portfolio sales and now own a material amount of Irish residential, commercial and SME debt. Most acquirers of loan portfolios do not have an in-house loan servicing capability and seek to engage an independent servicer to manage acquired portfolios.

2.6.3.1.1 Competitive environment in Ireland (servicing)

There has been ongoing rationalisation of servicing providers in the Irish market since the financial crisis as certain lenders disposed of non-core assets and some providers have withdrawn. Recent examples include:

- acquisition by Pepper of GE Capital's platform in 2012 and subsequent growth for Pepper to become the third largest independent special servicing platform in Ireland;
- Certus withdrawing its new business offering and continuing to service legacy residential mortgage and CRE portfolios; and
- Capita is continuing to provide a master service offering to the National Asset Management Agency retail bank units and is also deploying a primary and special servicing capability more generally.

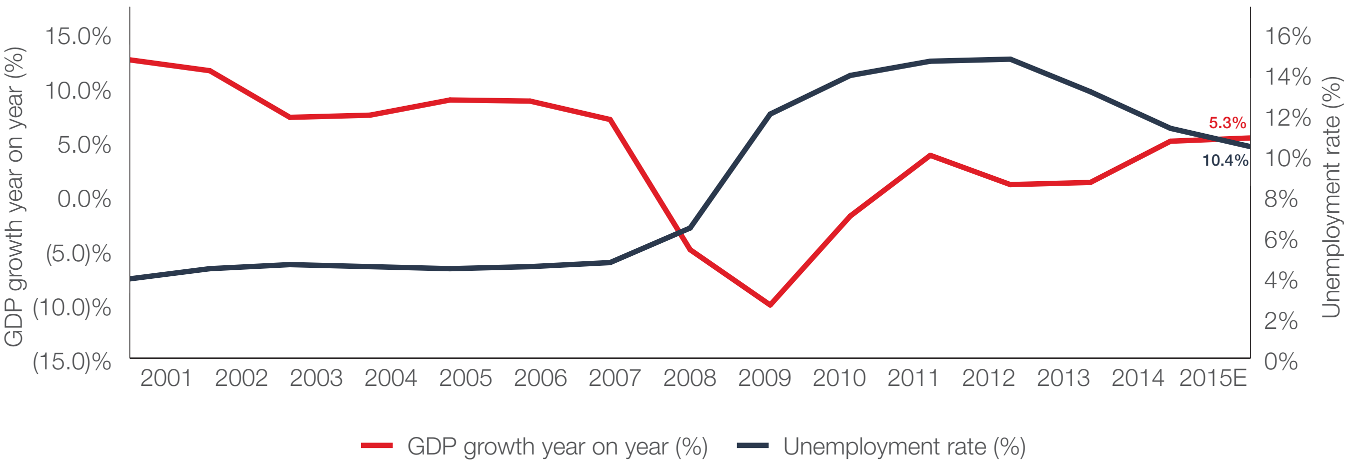
2.6.3.1.2 Mortgage lending market

Following the recession after the financial crisis, Ireland's economy has experienced a return to growth, supported by strong trade links with the recovering economies of the United Kingdom and United States, euro depreciation and falling unemployment. As depicted in Figure 30, key indicators are set out below.

- **Economy:** The Irish economy is stronger with GDP up by 4.8% in 2014 and expected to grow anywhere between 3.8% (Central Bank of Ireland) and 4.0% (Department of Finance) in 2015.
- **Returning consumer confidence:** The consumer sentiment index increased to 101.1[27] in January 2015, a 16.5% annual increase, while the retail sales index was up by 5.1%[28] annually in March 2015 and new private cars licensed increased by 26%[29] annually in January 2015.
- **Falling unemployment:** The unemployment rate dropped to 11.3% in 2014 from a peak of 14.7% in 2012 and is expected to fall to 10.4% in 2015.
- **Improving fiscal position[30]:** The Irish government deficit reduced to 4.1% of GDP in 2014 from 5.8% in 2013, buoyed by increased tax and social contribution revenue. Tax receipts increased by 9.1% to €41.3 billion in 2014 while at the same time interest paid on government debt reduced. The gross government debt was 109.7% of GDP in 2014 down from 123.2% in 2013.

27. Consumer sentiment index reported by The Economic and Social Research Institute.
28. Statistic reported by Central Statistics Office, Ireland.
29. Statistic reported by Central Statistics Office, Ireland.
30. Statistics reported by Central Statistics Office, Ireland.

Figure 30: Macroeconomic conditions in Ireland

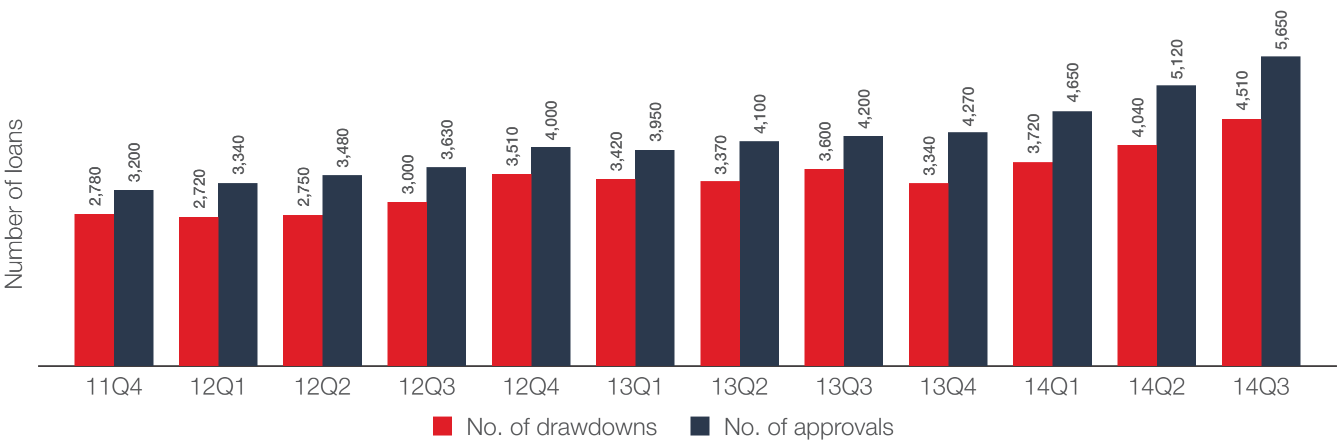


Source: Historical and forecast data from Oxford Economics

The level of mortgage activity increased in recent years from a low base.

- **Mortgage approvals:** As shown in Figure 31, mortgage approvals have risen from 3,220 in the fourth quarter of CY2011 to 5,650 in the third quarter of CY2014, an increase of 76%.
- **Mortgage drawdowns:** As depicted in Figure 31, the number of mortgage drawdowns rose from 2,780 in the fourth quarter of CY2011 to 4,510 in the third quarter of CY2014, an increase of 62.2%. In 2014, first time home buyers remained the largest segment of the market in value terms accounting for 49%, with mover purchasers accounting for 43%, meaning that 92% of mortgage credit was taken out by owner-occupiers.[31]

Figure 31: Mortgage activity in Ireland



Note: Data refers to fourth quarter moving averages and is based on mortgages for house purchase i.e. data excludes re-mortgages and top-ups. Latest observations: Third quarter of 2014.

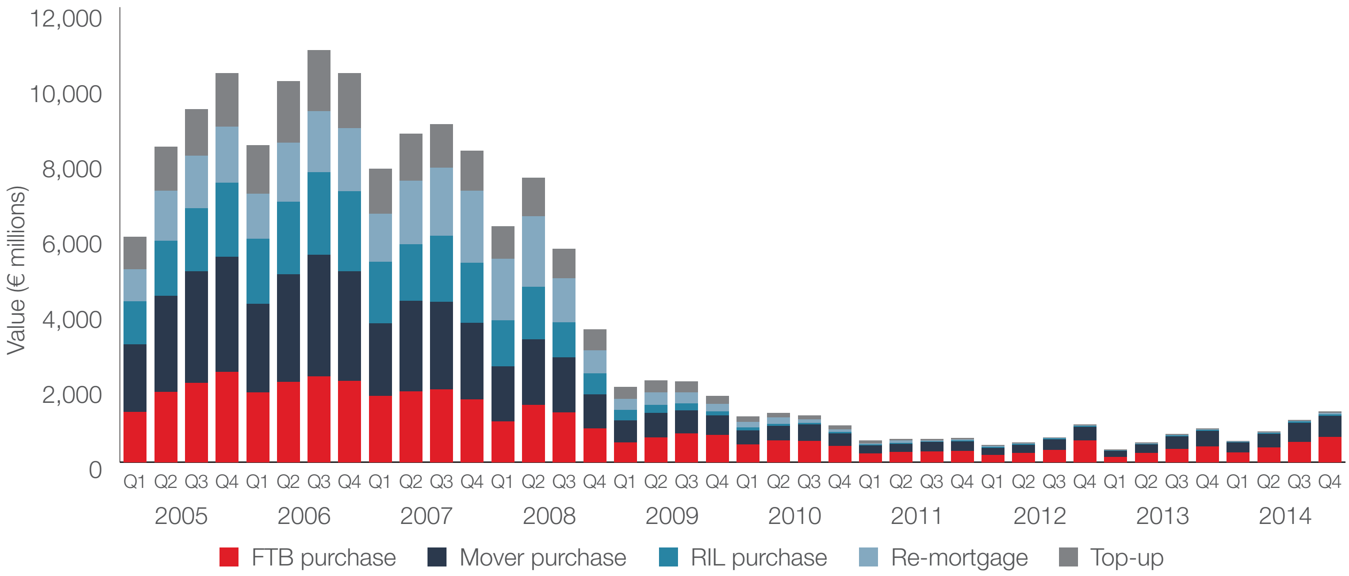
Source: Banking and Payments Federation Ireland, and Central Bank of Ireland calculations (data extracted from Central Bank of Ireland Macro-Financial Review, December 2014)

As Ireland emerges from the financial crisis, a significant opportunity exists around new residential mortgages, for both owner-occupied and investor, given the relatively low levels of recent lending as per Figure 32.

The two key banks, Allied Irish Bank and Bank of Ireland, are both active around residential mortgages in Ireland as well as Permanent TSB Group, KBC Bank Ireland and Ulster Bank. Pepper believes that there is a significant opportunity for an innovative lender to originate loans across a variety of product types to customers who remain underserviced by the market.

31. Statistics reported by Banking and Payments Federation Ireland in its update "New Mortgage Lending in Q4 2014" published on 18 February 2015.

Figure 32: Quarterly residential mortgage loans



Source: *Banking and Payments Federation Ireland, Banking and Payments Federation Ireland/PricewaterhouseCoopers Mortgage Market Profile, February 2014.*

Note: *Segments are defined as follows:*

- ***FTB purchase:** a loan drawn down by a first time buyer for the purchase of residential, owner-occupied property, where none of the borrowers has ever been an owner-occupier (or part owner-occupier) of a residential property in Ireland or elsewhere;*
- ***Mover purchase:** a loan drawn down for the purchase of residential, owner-occupied property, where at least one of the borrowers has been an owner-occupier (or part owner-occupier) of a residential property in Ireland or elsewhere;*
- ***RIL purchase:** a loan drawn down for the purchase of residential investment property or holiday home;*
- ***Re-mortgage:** a loan issued by one lender to refinance an existing mortgage with another lender; and*
- ***Top-up:** a further mortgage advance to existing borrowers which is made to finance expenditure other than house purchase.*

2.6.3.2 Business overview in Ireland

Pepper has leveraged its expertise developed in Australia over the past decade to exploit opportunities that have emerged in Ireland after the financial crisis and acts as a servicer of residential mortgages, CRE and consumer loans in Ireland. Pepper's AUM as at 31 December 2014 in Ireland of $15.2 billion comprises $6.2 billion of residential mortgages, $9 billion of CRE loans and $19 million of consumer loans. The purchase of the Irish platform in 2012 is a good example of the Pepper acquisition strategy targeting markets with difficult operating conditions, resulting in strong growth, in this instance, being driven by the servicing business.

As an independent end-to-end servicing and asset management partner, Pepper provides a comprehensive servicing solution to both purchasers of loan portfolios and existing lenders to help drive value from their portfolios. The business model generates a recurring revenue base from those loans, with Pepper having no direct credit exposure in the vast majority of cases. Pepper has developed bespoke IT systems and servicing processes specifically customised to align to the Irish regulatory environment, in particular with regards to residential mortgages.

As shown in Figure 33, Pepper Ireland earned over $50 million in income in CY2014. As shown in Figure 34, Pepper Ireland had over $15 billion in AUM as at 31 December 2014. Pepper has over 300 staff across two sites in Dublin and Shannon. Pepper Ireland is a Standard & Poor's rated servicer for both residential and CRE loans.

Figure 33: Pepper Ireland income ($ millions)

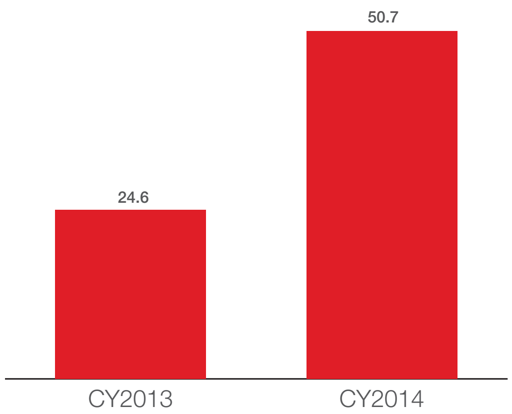
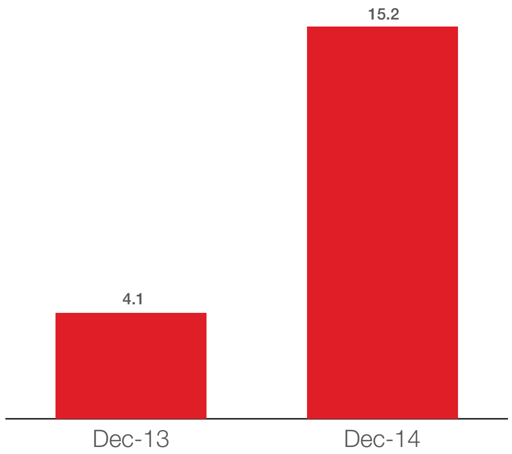


Figure 34: Pepper Ireland AUM ($ billions)



Pepper has secured long term customer contracts and established new partnerships since acquiring its Irish platform in 2012 and key clients include leading global investment banks, major credit investment funds and retail banks operating in Ireland. Figure 35 illustrates the distribution of Servicing AUM across various contracts.

Figure 35: Pepper Ireland AUM by servicing contracts as at 31 December 2014

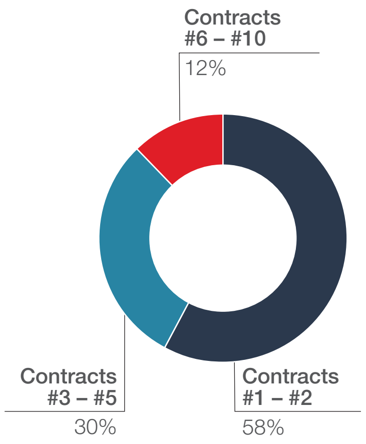
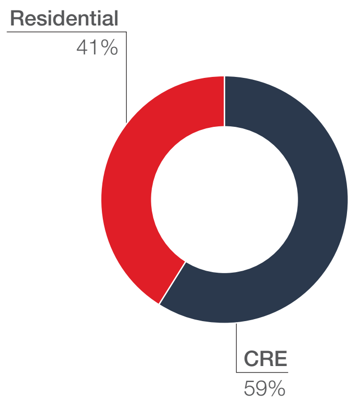


Figure 36: Pepper Ireland AUM by asset class as at 31 December 2014



Note: Servicing contracts breakdown is a reference to size of AUM under each contract.

Table 15 provides detail on the range of services Pepper provides in Ireland.

Table 15: Pepper Ireland business segments

Segment	Description
Residential mortgages (owner-occupied and investor)	• A full range of primary and special servicing • A full range of forbearance solutions to reduce the level of foreclosures and maximise ultimate loan recovery • Portfolio segmentation services and account level business plans • Performance to date that has resulted in outperforming cash collections targets for most of Pepper's client base, resulting in an enhanced market reputation for Pepper • Continue to leverage established business to build scale
CRE mortgages (SME borrowers)	• A full range of primary and special servicing as well as asset management and asset deleveraging capabilities • Receivership rationalisation services and asset level business plan development and execution • Strong performance to date has delivered value for clients via cost reduction, increased sales activities and increases in underlying cash collection enhancing Pepper's reputation
Consumer loans	• A full range of primary and special servicing • Depth of experience across asset-backed and unsecured loans • Pepper's track record to date has seen it outperforming all operational, delinquency and cash collections targets for its key clients

Pepper's strategy in Ireland is to leverage existing knowledge from its servicing business to build a lending business in Ireland over time, while continuing to grow its servicing book to improve margins and benefit from scale.

Pepper Ireland is actively targeting both residential, and small and medium-sized CRE lending opportunities. Management believes that, with few existing origination platforms, there is demand from creditworthy borrowers. Pepper Ireland is well placed to target the lending opportunity available in the market, particularly given the lender's mind-set and experience that Pepper's global business can apply to the market, including credit and real estate experience across multiple asset classes.

2.6.4 Pepper in the United Kingdom

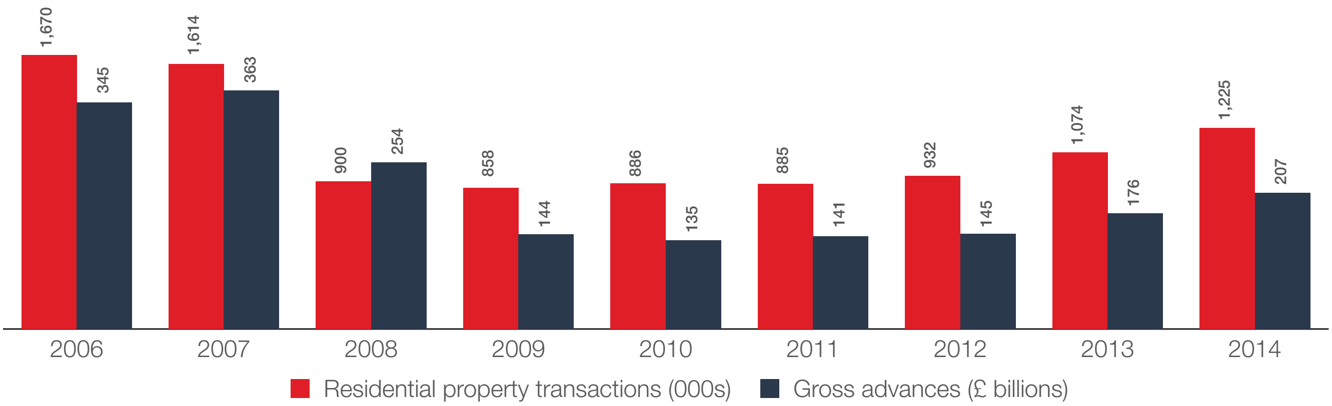
Table 16: Snapshot of Pepper in the United Kingdom

Year of Entry	• Started operations in September 2013 by acquiring Oakwood (established in 2003).
AUM	• AUM (October 2013): $4.7 billion. • AUM (December 2014): $6.9 billion.
Strategy	• Grow the servicing platform, leveraging capabilities to expand into targeted new lending opportunities with new residential mortgage lending commencing in the second quarter of 2015.
Growth Opportunities	• Expand third-party servicing opportunities including in relation to portfolio sales and entry of Challenger Banks. • Leverage local servicing platform combined with global credit management expertise to facilitate origination activities in target markets.

2.6.4.1 Industry overview in the United Kingdom

The United Kingdom residential mortgage market is one of the largest in Europe with gross loan advances from financial institutions totalling approximately £200 billion in 2014. While lending activity remains below pre-financial crisis peaks, both transaction and lending volumes have increased solidly in recent years as shown in Figure 37. Gross lending in 2014 was at its highest level since 2008 following several quarters of improved loan availability, increasing competition and strengthening demand from consumers which has signalled the ongoing recovery in the United Kingdom mortgage market.

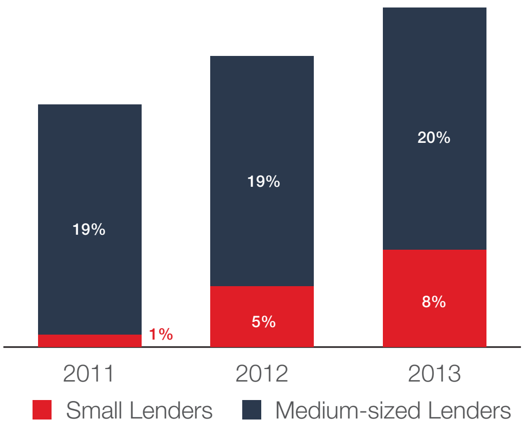
Figure 37: United Kingdom residential property transactions and gross advances



Source: Statistics published by Council of Mortgage Lenders based on data from Bank of England, National Statistics, HM Revenue and Customs and Council of Mortgage Lenders.

Most types of purchasers have been increasingly active in the market – first time buyers, mover purchasers, investors and cash buyers – buoyed by factors such as rising property prices, the economic recovery, low interest rates and falling arrears.

Figure 38: Market share of small and medium-sized lenders in the United Kingdom



According to the United Kingdom's Council of Mortgage Lenders, the market share of lenders outside the top six participants has increased to 28% in 2013 from 20% in 2011 in accordance with data published by the Council of Mortgage Lenders. The increasing trend of lenders to outsource servicing activities and the impact of technology and changing regulations have led to a shift in distribution in some lending segments towards intermediaries as online business favours specialist lenders who do not have the cost of large branch networks.

Source: "Member Review 2014 for the Council of Mortgage Lenders" published by Council of Mortgage Lenders

Management believes there are a number of factors that will drive growth in mortgage servicing in the United Kingdom including continued asset trade activity, new lenders entering the lending market, an ongoing need by lenders to drive lower arrears through analytics as well as the need for retail banks to reduce operational costs. Management also believes that servicer product development, including the ability to bear greater regulatory responsibility for customer treatment, makes third-party servicing particularly attractive to acquirers of loan books. Loan portfolio sales in the United Kingdom were over €20 billion in each of CY2013 and CY2014 while overall loan portfolio sales across Europe are expected to increase further in 2015[32] suggesting a continued attractive transaction environment for Pepper.

2.6.4.1.1 Competitive environment in the United Kingdom (lending)

The competitive landscape in the United Kingdom home loan market comprises broadly four types of participants, encompassing non-bank lenders, Challenger Banks, banks/building societies and investment banks.

32. PricewaterhouseCoopers Portfolio Advisory Group Market Update Q4 2014 (January 2015).

Key participants in the non-bank lending industry include GE Money, Kensington Mortgages, Precise Mortgages and Paragon. The new Challenger Banks, including Aldermore, OSB, Shawbrook, Virgin Money and Metrobank, typically focus on a specific subset of the overall market, such as SME borrowers, high net worth clients or investors.

2.6.4.1.2 Competitive environment in the United Kingdom (servicing)

Pepper operates as an independent value-added asset manager and views its management expertise and depth of experience as a true source of competitive advantage in servicing this market. The highly competitive landscape in the United Kingdom loan servicing market comprises three key segments in Table 17.

Table 17: Key characteristics of competitors in the United Kingdom servicing market

Competitor	Key players
Independent business process outsourcing	• Key players include Target, Vertex, HML, Crown and Capita
Value-added asset managers	• Key players include Pepper, Acenden and Exact Mortgage Experts
Captives	• Key players include Mars Capital, Paratus, AMC, Hudson advisers (Loanstar) and Lapithus (Apollo)

CRE market

The outstanding balance of the United Kingdom commercial mortgage market was £353.8 billion in 2014, of which £179.8 billion was attributable to the commercial property lending market and £174.0 billion attributable to the residential investment mortgages market[33]. In recent years, servicing opportunities have arisen from sales of CRE loan portfolios by existing or previous lenders.

2.6.4.2 Business overview in the United Kingdom

Pepper United Kingdom is a specialist loan servicing company providing services to investor and banking clients across United Kingdom residential mortgages (owner-occupied and investor), consumer loan assets and small-balance CRE loans. Pepper provides White-Label loan servicing and also services loans through Engage Credit (a trading name of Pepper United Kingdom), where legal title is held for clients (legal title is the ownership status given to owner of the mortgage who has responsibility for the conduct of the ownership in the eyes of the United Kingdom regulator – the Financial Conduct Authority). Pepper United Kingdom had $6.9 billion AUM as at 31 December 2014 across 12 active servicing clients and 180 staff based primarily in London and North Yorkshire. The acquisition of the business in 2013 was driven by the Pepper focus on key markets that have had recent difficult operating conditions and therefore exhibit significant upside potential in both servicing and lending.

Pepper's $6.9 billion United Kingdom Servicing AUM comprises owner-occupied mortgages (79%), investor (buy to let) mortgages (13%) and CRE (9%) loans. Figure 39 demonstrates the distribution of Servicing AUM across various clients. Key customers include leading global investment and commercial banks, credit investment funds and a Challenger Bank. Pepper's servicing contracts typically establish a minimum term and set out material penalties for early termination by a client.

33. Bank of England, De Montfort University and Office for National Statistics (United Kingdom).

Figure 39: Pepper United Kingdom AUM by servicing contracts as at 31 December 2014

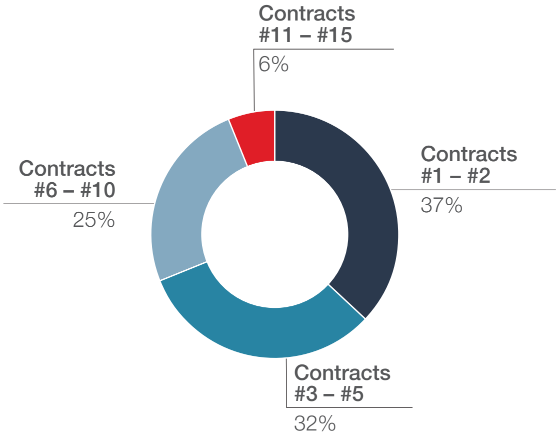
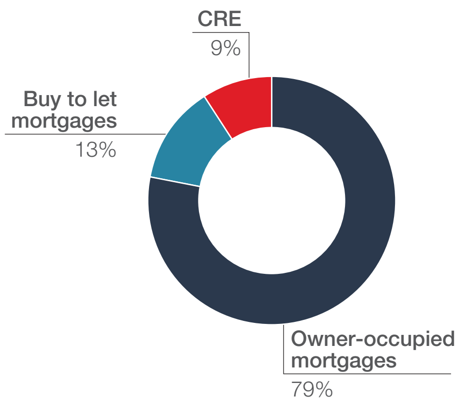


Figure 40: Pepper United Kingdom AUM by asset class as at 31 December 2014



Note: Servicing contracts breakdown is a reference to size of AUM under each contract.

Figures 41 and 42 highlight the strong growth in Pepper's servicing capabilities in the United Kingdom.

Figure 41: Pepper United Kingdom income ($ millions)

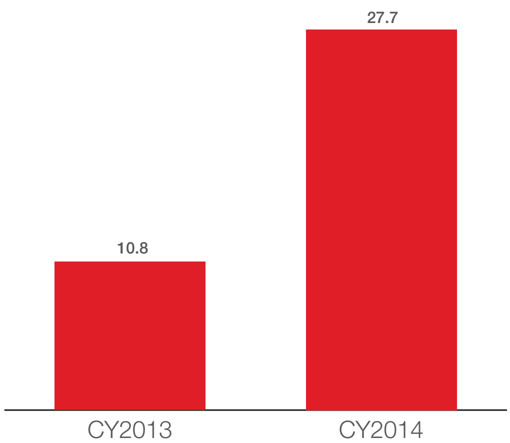
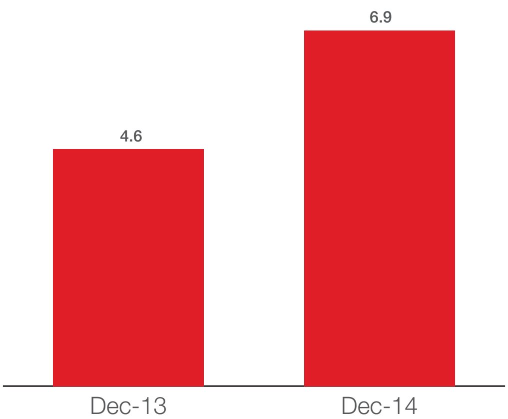


Figure 42: Pepper United Kingdom AUM ($ billions)



Pepper United Kingdom is recognised as one of only two servicers in Europe that has current Fitch Servicer Ratings in all three available residential loan servicing ratings categories – Primary, Special and Master – which enhance Pepper's credibility as an established loan servicer of both rated residential Term Securitisations from a variety of the United Kingdom-based issuance programs and portfolios owned and held by various banks and targeted debt investment funds.

2.6.4.2.1 Pepper's complementary origination and servicing strategy

The United Kingdom strategy is to continue to capitalise on growth opportunities across the servicing platform and leverage Pepper's resources and capabilities to expand into new lending.

Pepper commenced lending into the non-conforming United Kingdom mortgage sector in the second quarter of 2015, in order to capitalise on the opportunities created by non-bank lenders exiting the market and traditional banks and other prime lenders pulling back. Management has observed a number of trends in the market including:

- borrowers in the United Kingdom are looking for alternative sources of finance as they are underserviced by traditional bank and other prime lenders;
- the demand for alternative finance products, including bridging, secured and payday lending, suggests there is an opportunity for specialist lenders to service customers in this market; and
- traditional and other prime lenders are underwriting loans to restrictive credit criteria.

Pepper United Kingdom intends to leverage the expertise of its Australian business to manage credit risk (including case-by-case manual underwriting), apply a forensic approach to analysing credit history, originate comparatively low LVR ratio loans (approximately 75%) and maintain relatively higher margins.

The funding structure of the United Kingdom Lending business will closely follow the successful model developed by Pepper in Australia.

2.6.5 Pepper in Spain

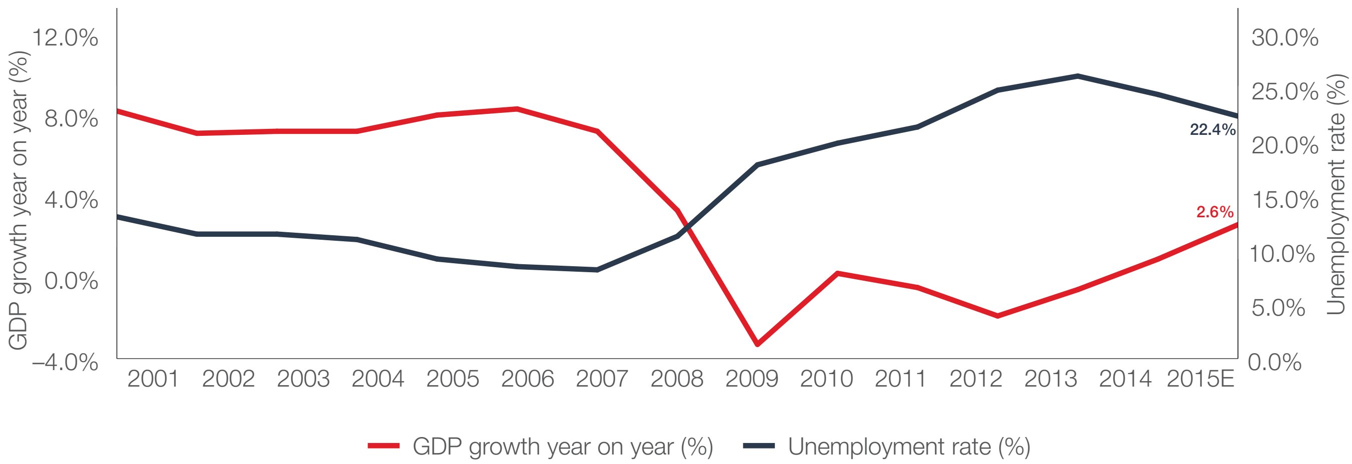
Table 18: Snapshot of Pepper in Spain

Year of Entry	• Started operations in February 2013 by acquiring Celeris Group.
AUM	• AUM (February 2013): $414 million (€290 million). • AUM (December 2014): $1.5 billion.
Strategy	• Leverage credit and operational strengths to originate high margin consumer lending products and cross-sell third-party servicing agreements.
Growth Opportunities	• Convert performing point-of-sale customers to personal loans. • Improve credit performance of third-party serviced loans. • Pursue new third-party servicing mandates on an opportunistic basis.

2.6.5.1 Industry overview in Spain

The Spanish economy is recovering following the recessionary conditions the economy experienced after the financial crisis, with Spain now seeing positive GDP growth, declining unemployment, increasing consumer demand and strengthening investment conditions. Since 2008, there has been a reduction in the number of major lenders due to economic conditions and market consolidation and Spanish bank mergers that have resulted in the major banks becoming significantly larger. The Spanish mortgage market grew in 2014 following a prolonged period of stagnation.

Figure 43: Macroeconomic conditions in Spain



Source: Historical and forecast information from Oxford Economics

Consolidation of traditional bank and other prime lenders has created an opportunity for specialist lenders in the non-conforming market due to reduced tolerance among competitors for new lending. The most significant components of the non-conforming lending market in Spain are:

- retail point-of-sale finance;
- mortgage products, particularly mortgage debt consolidation products;
- personal loans, including debt consolidation products; and
- auto and other asset finance.

2.6.5.1.1 Competitive environment in Spain

Pepper Spain chooses to compete in market segments where traditional bank and other prime lenders do not fully provide for the needs of customers. Leading participants in the Spanish non-traditional consumer lending market are Santander, Cetelem, Apollo, Cofidis, Banco Popular, BBVA and La Caixa.

Pepper Spain is focused on unsecured consumer lending. Retail point-of-sale finance is currently Pepper's core form of lending. Having commenced point-of-sale lending in mid-2014, Pepper is seeking to build capacity for cross-selling personal loans products through point-of-sale customers.

Retail banks in Spain are limited by a narrow credit view of customers that is hindering their ability to grow their in-house lending programs. Consumer consumption is rising in the Spanish market, presenting a potential opportunity for Pepper, once the overall Spanish banking and finance market recovers, to be able to commence lending in strong volumes.

2.6.5.2 Business overview in Spain

Pepper Spain was founded by the acquisition of Celeris Group's consumer loan business in 2013, which consisted of over 164,000 performing loans and a small non-performing loan book, representing an aggregate €290 million in receivables and a transfer of 121 employees. A differentiator for Pepper Spain is its flexible technology that has the capacity to provide efficient and productive solutions for both its consumer lending and loan servicing clients. These technological innovations are embedded within Pepper's lending and servicing capabilities. The systems assist with taking on new loan books, managing loan books and providing data analytics. The acquisition in Spain follows the Pepper approach of focusing on markets with difficult market conditions and the entry price for the platform reflects the distressed nature of the sellers. As a result, Pepper secured a strong platform with a strong team that it has since grown significantly.

Figure 44: Pepper Spain income ($ millions)

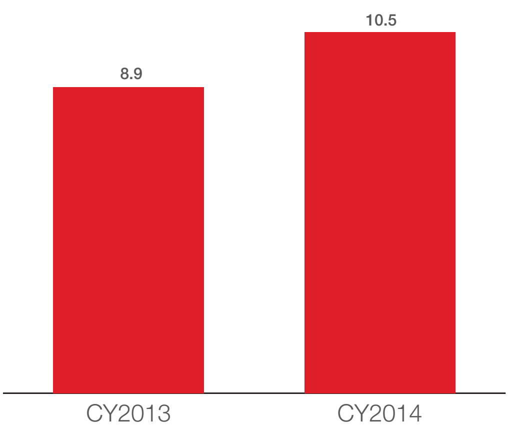
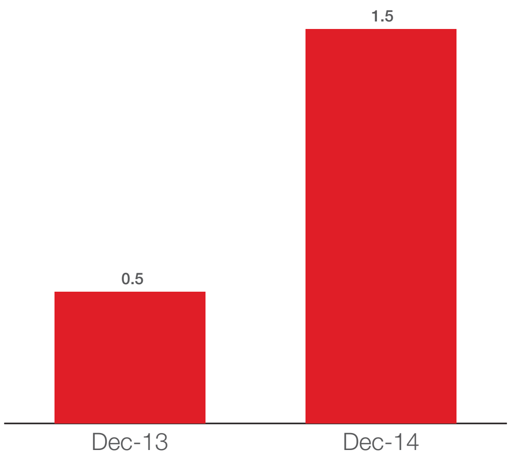


Figure 45: Pepper Spain AUM ($ billions)



2.6.5.2.1 Servicing

Pepper Spain had $1.5 billion Servicing AUM (as at December 2014) in personal loans, credit card debt and residential mortgage products and offers capabilities such as proprietary credit decision-making, and loan application systems and a proprietary credit scoring system. Pepper Spain has a specialist customer service team with deep local experience enabling tailor-made servicing and collections decisions by product and location. Pepper Spain services consumer loans (33%), auto loans (6%) and mortgages (61%). Termination under Pepper Spain's servicing contracts is generally fixed or until final loan life, subject to other events and termination notifications.

Figure 46: Pepper Spain AUM by servicing contracts as at 31 December 2014

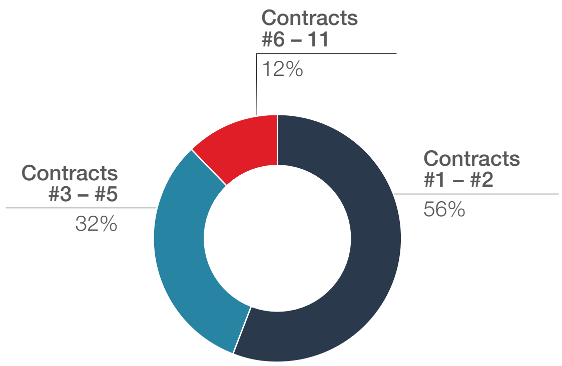
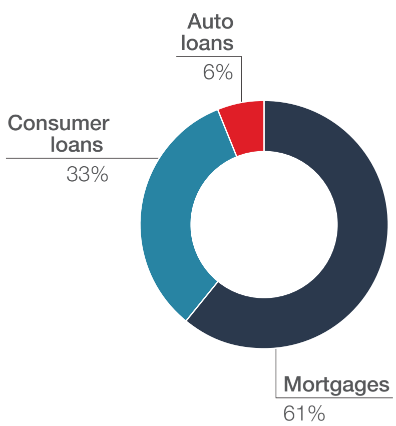


Figure 47: Pepper Spain AUM by asset class as at 31 December 2014



Pepper's long term strategy in Spain is to leverage its servicing strengths and core credit underwriting and collections management capabilities to attract a larger portfolio of third-party originated consumer loan books to service, and to organically grow its Pepper-originated consumer loan and residential mortgage portfolios.

2.6.5.2.2 Collections management capabilities

Pepper Spain's collections processes are proactive with close client communication managed from end-to-end.

Pepper Spain tailors its collections strategies to specific loan books and customer servicing needs. Pepper calls its borrowers from day 1 and has a preference to interact and manage borrowers within its strong but flexible collections processes.

2.6.5.2.3 Lending

Pepper Spain's key lending products are in the unsecured consumer lending and debt consolidation mortgage lending segments with Lending AUM of approximately $19.5 million (as at December 2014). Pepper's loan book comprised only point-of-sale loans as of December 2014; however, it has started to grow via higher-margin personal lending through cross-selling to point-of-sale customers.

Pepper Spain has identified a number of growth opportunities in the lending space in Spain and the strategy includes converting performing point-of-sale customers to personal loans by customer selection and intensive targeting.

The economics of this growth opportunity from Pepper's perspective are highly attractive and provide strong risk-adjusted returns on Pepper's Shareholder capital. The table below outlines the key features of each product offering including product distribution and underwriting criteria.

Table 19: Pepper Spain key business segments

	Point-of-sale	Personal loan (cross-sell)	Secured debt consolidation
Key product features	• €1,200 average loan • Fully unsecured • 20 month contractual tenor	• €4,000 average loan • Fully unsecured • 60 month contractual tenor	• €60,000 average loan • 1st mortgage, 60% LVR • 30 year contractual tenor
Product distribution	• Retailer agreements (well known to Pepper Spain) • Small internal sales team	• Cross-sell of point-of-sale customers • Internal sales team	• Broker agreements • Internal sales team (already in Pepper Spain)
Key credit underwriting	• Credit scoring • Tailor-made underwriting • Customer service team • Manuals/reporting	• Behavioural credit scoring • Special quality team • Manuals/reporting	• No score • Manual credit assessment with qualified underwriters • Closing loan team

2.6.6 Pepper in South Korea

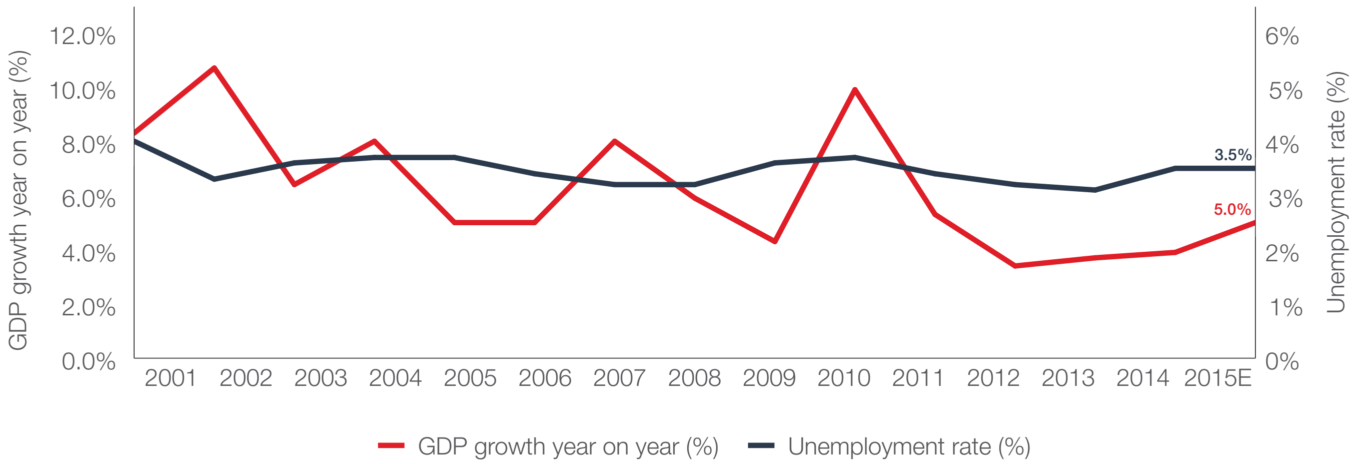
Table 20: Snapshot of Pepper in South Korea

Year of entry	• Started operations in October 2013 by acquiring Evergreen Savings Bank.
AUM	• AUM (October 2013): $0.1 billion. • AUM (December 2014): $0.2 billion.
Strategy	• Seek to expand in 60%-85% LVR residential mortgage and consumer finance markets.
Growth opportunities	• Build on existing platform with strong margin opportunity in the consumer finance segment. • Target households relying on high cost debt from non-bank financial institutions.

2.6.6.1 Industry overview in South Korea

The South Korean economy has seen solid growth in recent years and is expected to grow at a steady pace in 2015, supported by an increase in consumer spending, low unemployment rate levels, expansionary fiscal policy, interest rate cuts and a robust property market.

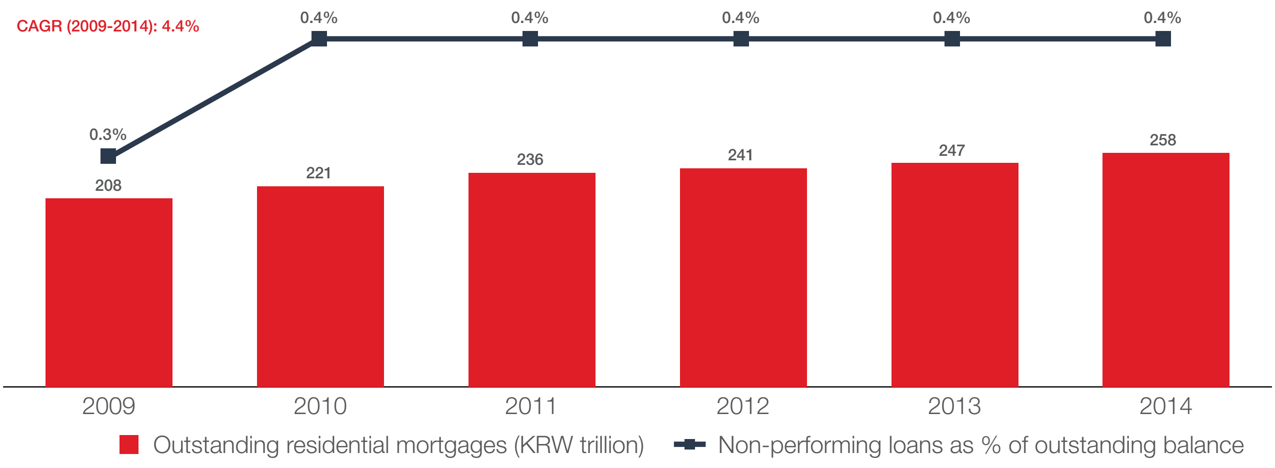
Figure 48: Macroeconomic conditions in South Korea



Source: Historical and forecast from Oxford Economics

Domestic demand continues to be burdened somewhat by relatively high levels of household debt; however this is expected to ease over time. The housing market in South Korea has experienced steady credit growth over the past 10 years, with a CAGR of 8.3% (broadly in line with per capita growth of 7.8%) and the expansion of credit is expected to continue in the medium term[34]. Over the same period, loan quality has improved materially, with non-performing loans becoming a much smaller proportion of the outstanding mortgage book balance in recent years.

Figure 49: Total outstanding residential mortgages (KRW trillion) and % of non-performing loans



Source: Euromonitor International report, Consumer Lending in South Korea, January 2015

34. Euromonitor International.

Figure 50: Gross consumer lending (KRW trillion) and loan losses (%)

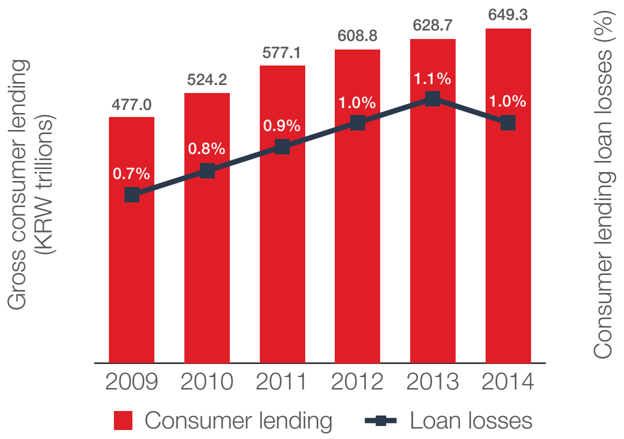
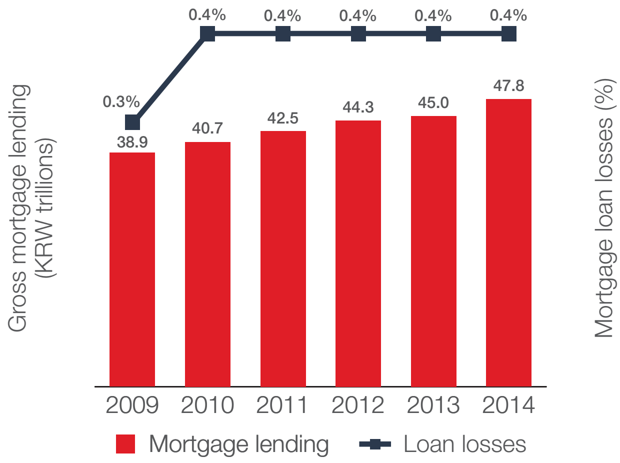


Figure 51: Gross mortgage lending (KRW trillion) and loan losses (%)



Source: Euromonitor International report, Consumer Lending in South Korea, January 2015

South Korean consumers have been increasingly relying on less traditional methods of obtaining debt; in particular, turning towards specialty finance providers to provide higher LVR residential mortgages and higher cost consumer debt products.

Figure 52: Household borrowing by lender type

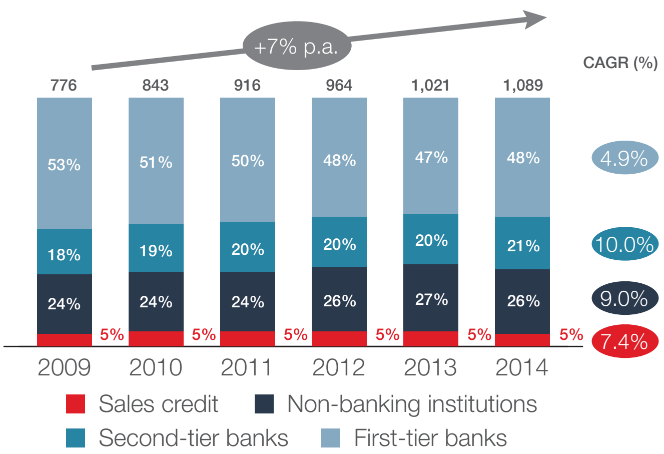
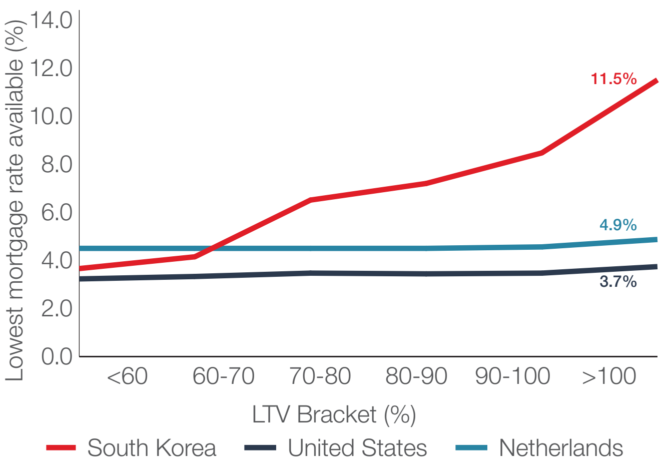


Figure 53: Higher premium on high LVR loans



Source: Household borrowing by lender type statistic from Bank of Korea (Central Bank of South Korea), Higher premium on high loan to value loans statistics from report "A blueprint for addressing the global affordable housing challenge" published by McKinsey Global Institute in October 201

Note: Second-tier banks include mutual savings banks, cooperative credits, rural development savings banks and post offices. Non-banking institutions include insurers, pension funds, specialised lenders (credit card companies, capital companies), public financial institutions and brokerage firms (securities companies, asset liquidation companies and lenders). Sales credit includes specialised lenders, department stores and auto companies.

2.6.6.1.1 Mutual savings banks in South Korea

As of December 2014, there were 80 mutual savings banks in South Korea, with an aggregate asset base of KRW38 trillion. This is a reduction from its high of KRW86 trillion in 2010 as the industry underwent drastic reform from its focus on large-ticket size project financing and construction loans to SME and retail loans. Due to high loan defaults experienced in the early 2010s, many of the largest mutual savings banks were shut down or reorganised and sold to new owners. The biggest participants are now run by major bank holding companies (i.e. Kookmin Bank, Shinhan Bank and Hana Bank) or new entities with strong capital backing (i.e. Softbank and J Trust). For the six month period ending December 2014, the industry overall turned to positive profitability as sufficient loan loss provisioning led to broad stabilisation of mutual savings bank operations.

2.6.6.2 Business overview in South Korea

Pepper initially acquired a strong local platform in October 2013 in the form of a mutual savings bank that provided an existing customer base, banking systems and branch facilities to develop Pepper's lending business over time. Pepper's focus on the South Korean market was driven by the dysfunction that was present in the mutual savings bank sector and the resulting ability to secure a platform and team to take advantage of the significant market opportunity. As has been the case in all overseas acquisitions to date, Pepper has a disciplined approach to entry price.

Pepper now operates as a mutual savings bank in South Korea, providing a full spectrum of loan origination and customer service functions, and is funded by local retail customer deposits. At 31 December 2014, Pepper had $329 million in customer deposits and over 35,000 active accounts serviced by approximately 156 employees.

Pepper's mutual savings bank in South Korea operates in a market where it seeks to service a broad spectrum of credit risk grades through its three key loan products: Pepper Prime Loan, Pepper Standard Loan and Pepper Credit Rehab Loan. Pepper's target market segment is medium-risk grade customers in order to generate higher risk-adjusted returns consistent with its core competencies and loan underwriting expertise.

During the month of April 2015, Pepper's monthly loan originations surpassed $50 million for the first time, broadly evenly split between secured and unsecured loans.

Pepper acquired a clean platform in South Korea with limited legacy issues in terms of having a relatively small non-core loan portfolio and no labour union involvement in the workplace. Pepper recruited a highly experienced management team (led by CEO Matthew Chang) with extensive senior South Korean national bank experience. Today, Pepper operates in lending segments where national banks are not typically focused such as non-standard mortgages, unsecured lending and non-prime lending. Management believes these are attractive segments where Pepper can apply its global specialist lending expertise.

2.6.6.2.1 Pepper South Korea financial profile

Figure 54: Pepper South Korea income ($ millions)

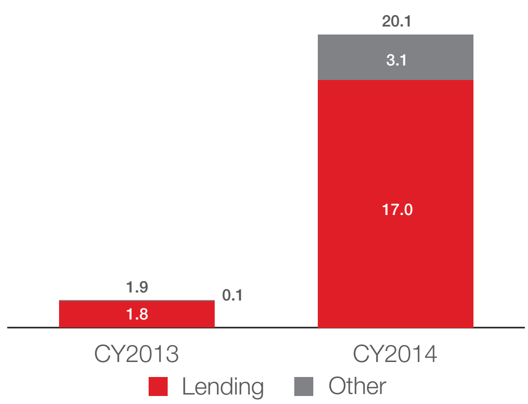
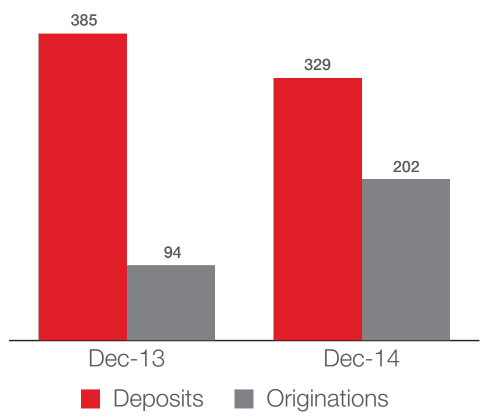


Figure 55: Pepper South Korea originations and deposits ($ millions)



Source: *Pepper South Korea originations and AUM converted at exchange rate of KRW/$: 941 at 31 December 2013 and KRW/$: 894 at 31 December 2014*

2.6.6.2.2 Market segmentation

Pepper South Korea targets high margin loan products including residential mortgages with higher LVR (60%-85%) limits than the traditional standard bank products (capped at 70%), which generates a higher lending margin for Pepper given banks tend to only compete in very low margin segments. Pepper also provides unsecured personal loans to non-prime customers with an average annual percentage rate of 18% to 20%. This includes products in the alternative prime segment as well as the standard and credit rehabilitation segments.

2.6.6.2.3 Competitive environment in South Korea

The lending market in South Korea encompasses first-tier banks, second-tier banks, non-bank lenders and consumer finance companies. While the lower margin lending segments of the market are highly competitive, particularly among the first-tier national banks, Pepper targets lending segments such as non-standard mortgages, unsecured lending and non-prime lending where we can generate higher risk-adjusted returns by leveraging Pepper's risk-based pricing techniques and credit scorecard models which source borrower credit history information from South Korea's positive credit reporting system.

2.6.6.2.4 Product and distribution capabilities

The key loan products for Pepper South Korea are personal loans and residential mortgages distributed through five retail branches and two satellite lending specific branches with over 200 DSRs who market loans directly to customers largely on a commissions-only basis.

2.6.6.2.5 Funding

Pepper South Korea is predominantly funded through retail customer deposits. Pepper has a long term deposit funding strategy, as there is a limited market for securitisation and warehouse funding in South Korea, particularly with respect to non-standard residential mortgages and personal loans, unlike in Pepper's other core markets. South Korean depositors are typically focused on ease of banking and price which means customers can be attracted from established market participants. Mutual savings banks in South Korea have a consolidated deposit base of approximately US$40 billion while national banks have over US$1 trillion. This large potential depositor base gives Pepper an opportunity for capturing sustainable growth in its retail customer deposit base in South Korea.

Mutual savings banks in South Korea receive the benefit of Government guarantees on deposits up to KRW50 million, resulting in a stable, relatively low cost source of funding for Pepper Savings Bank. Pepper is able to generate attractive net interest margins by utilising these low cost deposits to lend at attractive spreads.

2.6.6.2.6 Capital and liquidity position and requirements

Pepper South Korea is governed by the country's *Mutual Savings Bank Act* and is regulated by the Financial Supervisory Service and Financial Services Commission (**FSC**). Pepper must hold regulatory capital against its assets in South Korea. The quantum of regulatory capital held against the Pepper South Korea loan book is determined in accordance with the Bank for International Settlements prudential requirements. Based on its asset size and prudential capital requirements, Pepper currently is required to maintain a minimum Bank for International Settlements capital ratio of 6% (expected to rise to 7% from 1 July 2016). As of December 2014, Pepper reported a Bank of International Settlements ratio of above 8% consisting entirely of common equity.

Pepper expects to contribute an additional $22 million of regulatory capital into Pepper South Korea in CY2015 in order to support balance sheet growth. It is anticipated that by end of CY2015, Pepper's South Korean Bank for International Settlements capital requirements will be self-funding via retained earnings growth and capital already deployed, assuming current growth forecasts in CY2015 are achieved as set out in the Forecast Financial Information.[35] Growth above expectations or lower returns may require additional capital support from the Group.

Pepper Savings Bank is also required to maintain a liquidity ratio of above 100%. The liquidity ratio is calculated as A/B where:

- A is liquid assets – being any of the following with remaining maturity of not more than three months: provided that those under subparagraphs (i), (iii) (limited to listed securities) and (iv) shall be included, irrespective of the maturity:
  (i) cash;
  (ii) deposits with third parties;
  (iii) securities (limited to those classified as "normal" and "precautionary" as a result of the classification of asset soundness);
  (iv) reserve deposits with the Central Bank; and
  (v) loans to third parties (including call loans, but limited to those classified as "normal" and "precautionary" as a result of the classification of asset soundness); and
- B is liquid liabilities – being any of the following with remaining maturity of not more than three months: provided that those under subparagraph (i) shall be included, irrespective of the maturity):
  (i) deposits received from customers (depositors) by Pepper Savings Bank;
  (ii) borrowings (including call money);
  (iii) bonds.

35. The Forecast Financial Information set out in Section 3 has been prepared on the basis of the best estimate assumptions set out in Section 3 and should be read in conjunction with the discussion of the Financial Information in Section 3 (including the sensitivities set out in that section), and the risk factors set out in Section 4. There is no guarantee that the forecasts will be achieved.

2.6.6.2.7 Management team

Pepper South Korea has an experienced management team largely recruited from a variety first-tier national banks. The core group, led by its CEO Matthew Chang, has extensive experience in both secured and unsecured retail lending in South Korea and other international markets, including the United States. Pepper South Korea also maintains a strong local credit and risk management team, comprised of risk officers with prior experience working for large international banks, including Standard Chartered Bank Korea and Citibank Korea.

2.6.6.2.8 Lending and servicing/collections

Pepper's business model in South Korea is consistent with the Pepper model in its other lending jurisdictions, as any new products are developed with its target customers in mind, backed by quantitative information and oversight from the global credit function to ensure risk is correctly priced, losses are managed to expectations and target profitability is achieved. Pepper South Korea uses full credit bureau reports available in the local market, supported by its own proprietary credit scoring models developed for each specific target market and product. The management team leverages the full Korean Credit Bureau system (reporting both positive and negative information) available in the industry since early 2000, which enables effective development of scorecard models and predictive performance behaviour. Once loans have been booked, Pepper South Korea consistently applies the Group's proven methods of customer management, which include early call detection, early resolution and continuous compliance monitoring.

2.6.6.2.9 Growth opportunities in South Korea

Pepper aims to expand its operation and lending portfolio in South Korea principally through organic growth. Since the acquisition of the bank, the local team has applied considerable focus to developing a robust infrastructure and platform to organically grow new lending volumes. This includes implementing its own proprietary risk models for underwriting, developing various distribution channels for lead generation and building up an efficient and scalable operational system for customer booking and post-settlement loan servicing.

2.6.7 Pepper in Hong Kong and China

2.6.7.1 Industry overview in Hong Kong and China

Hong Kong's economy has experienced steady economic growth since 2010, supported by strong growth in consumer spending and exports of goods and services to its main trading partners, especially China.

Hong Kong's stable macroeconomic conditions in terms of low unemployment, low interest rates and rising personal disposable income, have contributed to its solid growth in consumer credit lending at a CAGR of 11.3% since 2009.

Figure 56: Unemployment rate (%) and Base interest rate (%)

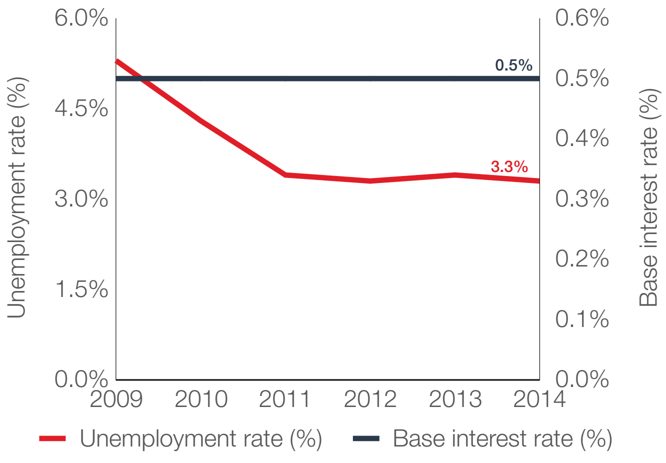


Figure 57: Hong Kong annual personal disposable income (HKD)

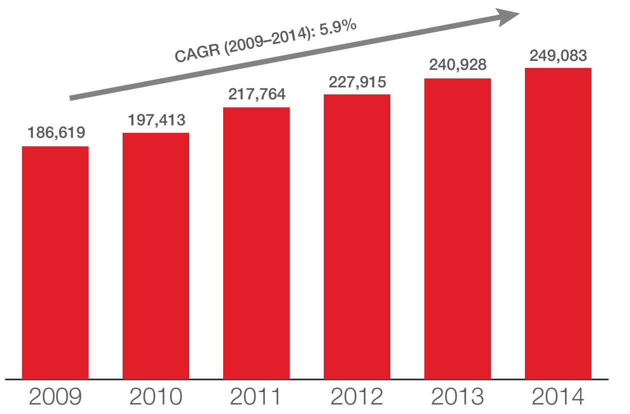
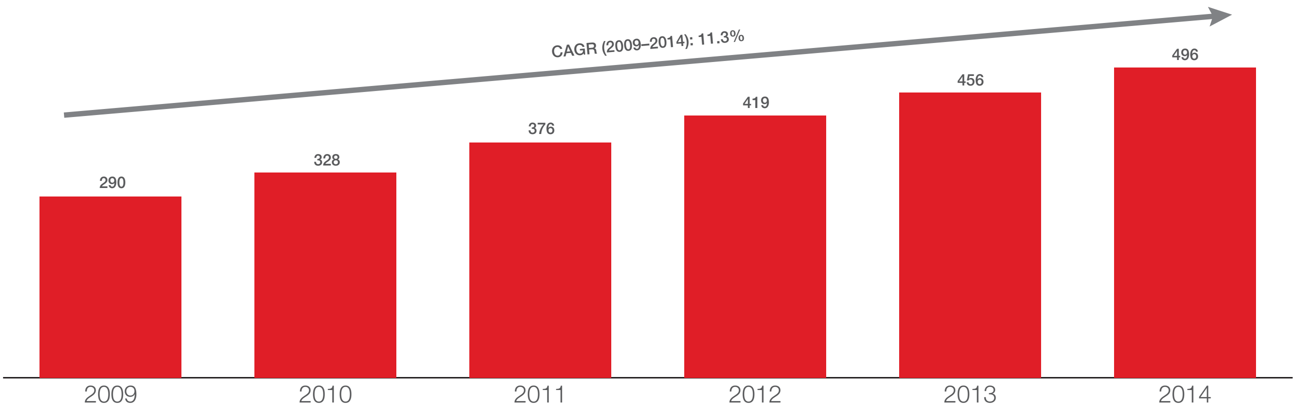


Figure 58: Outstanding consumer credit in Hong Kong – excluding mortgages (HKD billion)

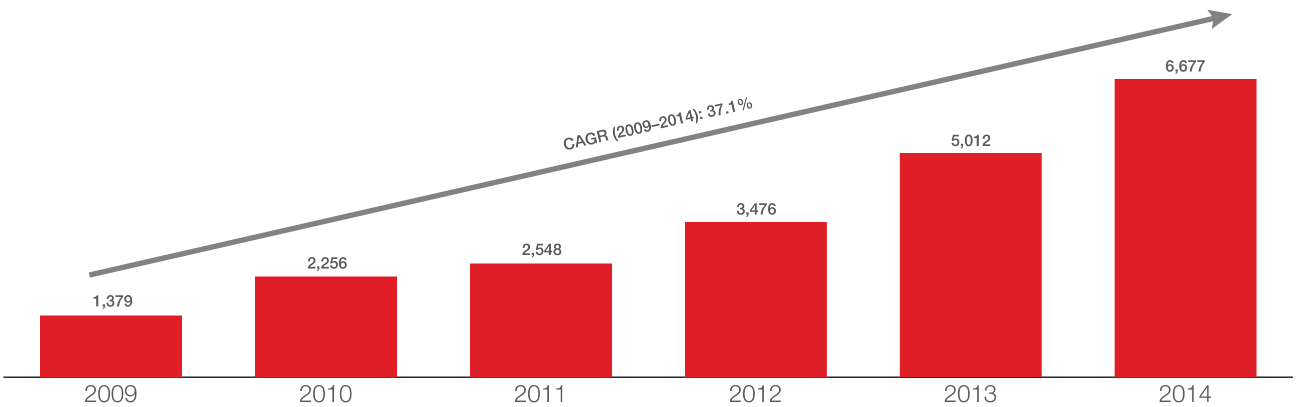


Source: Historical unemployment rate and base interest rate based on Hong Kong Monetary Authority (HKMA) reported statistics. Euromonitor International report, Consumer Lending in Hong Kong, China, March 2015 and Personal Disposable Income Levels based on Euromonitor

Note: Base interest rate referred to here is Hong Kong's liquidity adjustment window offer rate.

Consumer lending in China, excluding mortgages, has grown significantly at a CAGR of 37% since 2009, albeit from a reasonably low base. China's strong credit growth is expected to continue as the economy transitions from being investment-led to consumer-driven.

Figure 59: Outstanding Consumer Credit in China – excluding mortgages (CNY billion)



Source: Euromonitor International report, Consumer Lending in China, January 2015

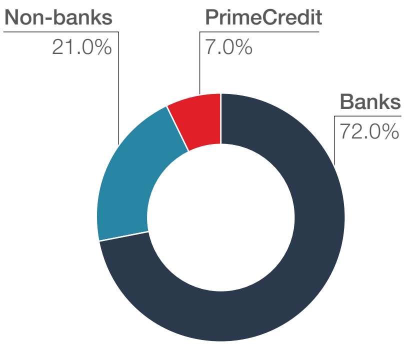
In addition, other key drivers of growth in consumer credit in China are set out below.

- **Low interest rate environment:** Gradual reduction in interest rates by authorities to boost domestic demand is likely to bring down household savings levels in the Chinese economy and increase consumption.
- **Innovation in financial products:** Traditional lenders represented by commercial banks are offering more diversified guarantees to enhance the flexibility of loans, as well as using traditional guarantees such as home equity. Such developments have contributed to growth in other personal lending.
- **Rise of non-bank lenders (alternative financial service providers):** There is a growing class of non-bank lenders represented by consumer finance companies such as UA Finance, Home Credit and Bank of Beijing Consumer Finance Company who are targeting middle and low income consumers with no bank accounts or credit cards. Euromonitor International expects alternative financial service providers' share of total consumer credit to increase over the years to reach 16% of the total by 2018 in China.

2.6.7.1.1 Competitive environment in Hong Kong and China

PrimeCredit (Pepper holds a 12% equity interest in PrimeCredit) operates within the non-bank lending segment that represents approximately 28% of the total Hong Kong instalment personal loans market. The non-bank sector includes deposit-taking companies such as Public Finance and money lenders such as UA Finance, Promise and Aeon Credit. Similar to PrimeCredit, other Hong Kong non-bank lenders such as UA Finance and Promise have established operations in Shenzhen, as a regional hub to expand into other parts of China.

Figure 60: Hong Kong instalment personal loans market share by outstanding loans as at 31 December 2014



Source: TransUnion and company data

2.6.7.2 Business overview in Hong Kong and China

Table 21: Snapshot of Pepper in Hong Kong and China

Year of Entry	• A Pepper-led consortium completed the acquisition of PrimeCredit in May 2015. • Pepper holds a 12% equity interest in PrimeCredit.
AUM	• PrimeCredit's total Hong Kong AUM (December 2014): $1.1 billion. • PrimeCredit's total China AUM (December 2014): $51 million.
Growth Strategy	• In Hong Kong, broaden customer base through introduction of new loan products and drive further repeat business with existing customers through enhanced customer value initiatives. • In China, leverage the existing platform to expand business within and beyond Shenzhen, utilising the resources of strategic partner, China Travel Service (CTS) and Pepper's consumer credit and securitised funding expertise.

2.6.7.2.1 Overview of Pepper's Investment in PrimeCredit

Pepper is part of a consortium which completed the acquisition of PrimeCredit Limited in Hong Kong and Shenzhen PrimeCredit Limited in Shenzhen, China from Standard Chartered Bank in May 2015. Along with Pepper's 12% stake, CTS holds a 55% interest with funds managed by York Capital Management holding the remaining 33% interest. Pepper first sourced the transaction for the consortium and was attracted by the fact that the large bank seller was strategically intent on selling the platform. This, coupled with the relative lack of local bank interest, meant that Pepper was able to achieve its disciplined approach on entry price for PrimeCredit.

Pepper's decision to invest as a minority investor reflected the relative large size of PrimeCredit. Pepper's investment has been made with entrenched strategic and operational involvement through the consortium. Pepper has entered into services agreements with each of the Hong Kong and Shenzhen businesses under which Pepper will participate in the strategic development of the respective platforms. This mandate is distinct from Pepper's other servicing undertakings that predominantly relate to loan pools. These agreements enable Pepper to utilise its experience to grow the consumer credit originating businesses that are conducted by PrimeCredit. This is through assisting in business development and the provision of ongoing operational support across product design, sales distribution, credit and risk management policy, servicing and collections processes, securitised funding execution and IT systems development. Pepper will be entitled to receive a combination of base and performance-related management fees for its services which will be paid by PrimeCredit. Pepper will also equity account for its proportional interest in PrimeCredit's annual consolidated NPAT.

2.6.7.2.2 Overview of PrimeCredit

PrimeCredit was founded and incorporated in Hong Kong in 1977 and was acquired by Standard Chartered Bank in 2004. PrimeCredit operates as a money lender engaged in the provision of unsecured personal loans and credit cards to local Hong Kong residents and domestic helpers from the Philippines and Indonesia who work in Hong Kong. Prior to the recent acquisition by the consortium, PrimeCredit also provided residential mortgage loans; however, upon closing the acquisition in May 2015, Pepper and its consortium partners sold the mortgage portfolio as net interest margins were constrained by strong local competition and PrimeCredit's relatively higher funding costs to compared to those of bank mortgage lenders.

Based on its total outstanding loan balances, PrimeCredit is Hong Kong's market leader in unsecured consumer finance across its peer group of non-bank financiers, holding an approximate 25% market share in the non-bank sector.

PrimeCredit originates its loan products through 35 branches in Hong Kong, in conjunction with complementary direct sales and remote sourcing distribution channels. As at December 2014, the company had approximately $1.1 billion in outstanding loan balances, of which 91% comprised unsecured personal loans and 9% comprised credit card receivables.

Since May 2015, PrimeCredit is funding its operations through term Warehouse Facilities provided by two global investment banks and one major Australian bank. Pepper led the establishment of these funding facilities utilising its strong relationships with the funding banks and its expertise in structuring Warehouse Facilities and Term Securitisation funding lines.

In China in 2009, PrimeCredit launched its consumer lending business in Shenzhen, as a microfinance company. Currently, PrimeCredit has six branches in Shenzhen, China, supplemented with a local team of DSRs. The company focuses on personal loan products within Shenzhen but with substantial future opportunity to diversify its product offering locally and also to expand into other regions within China.

Figure 61: PrimeCredit loan balances in Hong Kong ($ millions)

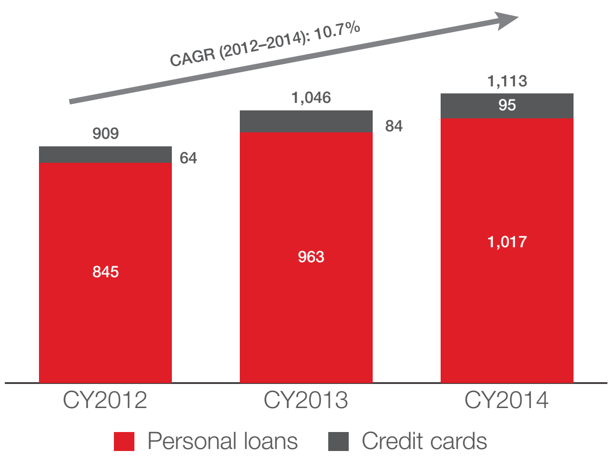
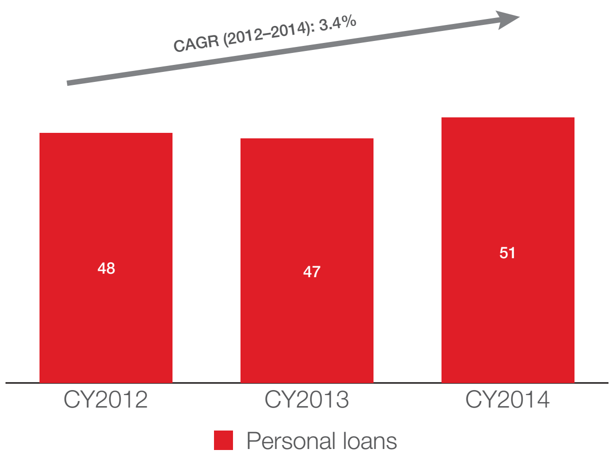


Figure 62: PrimeCredit loan balances in China ($ millions)



2.6.7.2.3 Partnership opportunity with CTS

The CTS group was founded in 1928 in Hong Kong and is one of the 55 largest state-owned enterprises under the direct supervision of the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC), China. CTS operates a diverse range of businesses including tourism-related interests (travel agencies, theme parks, leisure resorts, hotels, golf courses and passenger transportation), industrial investment, real estate development, a logistics business and a growing financial services business (including a regional city commercial bank in China). CTS has over 550 branches in China and a customer database of over 43 million people.

Through their investment in PrimeCredit, Pepper and CTS have combined their respective strengths including:

- Pepper's experience in owning and managing consumer finance businesses, in particular those operating in the non-bank sector and with target clients including those underserviced by traditional banks and other lenders; and
- CTS' breadth of consumer-related services and customer relationships, its deep understanding of local Chinese laws and practices (including licensing regimes) and strong institutional relationships within China through its prominent status as a state-owned enterprise in the China.

2.7 Pepper's funding strategy

2.7.1 Overview

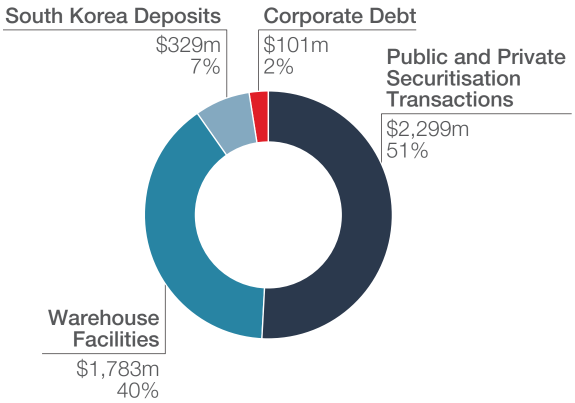
In each of its lending markets, Pepper maintains access to a funding platform supported by established funding relationships with a diversified group of funders. Pepper's six types of funding are explained in further detail below.

Table 22: Sources of Pepper funding

Type of funding		Description
Securitisation	**Warehouse Facilities**	Funding partners (such as major trading banks and institutional investors) provide financing to limited-recourse Funding Vehicles established by Pepper that are used to fund the origination or purchase of loans. These facilities are also typically described as Warehouse Facilities because they can be drawn and repaid on an ongoing basis up to agreed facility limits and eligibility criteria, subject to conditions. Warehouse Facility terms are typically structured with 12 month to 36 month maturities that are reviewed regularly. The typical expectation of Warehouse Facility funders is that assets funded in the relevant facility are refinanced in the capital markets on a regular basis.
Securitisation	**Public and private Term Securitisation**	A group of loan assets initially funded via a Warehouse Facility can be pooled together and refinanced by being sold to a new Funding Vehicle which issues securities against those assets (known as asset-backed securities) to investors in public wholesale capital markets (such as domestic and international banks, institutional funds and professional fixed income investors). These transactions are also commonly described as Term Securitisations. Figure 64 illustrates the securitisation funding process commencing with the origination of new loans through Warehouse Facilities and the refinance of those loans through public or private Term Securitisation transactions. In respect of Warehouse Facilities and Term Securitisations, Pepper typically acts as manager (in Australia) of the Funding Vehicles and servicer of the loan assets, and provides a level of "first loss" capital to the Funding Vehicle and/or a limited guarantee to credit enhance the position of the funding banks and other investors. Pepper may also act as trustee of the Funding Vehicle.
Whole Loan Sales		As an alternative to Term Securitisation, Pepper may from time to time sell pools of loans at a premium to their par value. This provides Pepper with the opportunity to recycle capital, in order to continue funding loan assets and to maintain an alternative, diversified source of funding for continued loan origination.
Deposits		Pepper Savings Bank in South Korea funds its operations, including the origination of personal loans and residential mortgage loans, predominantly through retail customers deposits insured by Korean Deposit Insurance Corporation (KDIC).
Corporate Debt Facilities		Pepper has access to revolving Corporate Debt Facilities in order to periodically fund a range of business activities, including ongoing working capital needs, the acquisition of new businesses and the provision of subordinated loans or notes in Warehouse Facilities or Term Securitisations.
Cash		Pepper is able to use its own surplus cash to fund business operations, acquisitions and subordinated loans or notes in Warehouse Facilities or Term Securitisations.

Pepper seeks to maintain a level of equity capitalisation, and access to funding platforms, that supports its business objectives, and will continue to optimise its approach to funding over time, having regard to opportunities available to it (including for example to buy back shares if pricing is attractive) and an appropriate balancing of risk and return.

Figure 63: Pepper's consolidated funding position at 31 December 2014



2.7.2 Pepper's securitisation model

Pepper primarily utilises Warehouse Facilities and the securitisation markets to fund the origination of new loans.

Once loans are transferred into Funding Vehicles, they are funded by third-party senior and mezzanine debt, and equity, or other "first loss" capital, contributed by Pepper as part of a Warehouse Facility arrangement. The majority of Warehouse Facility funding is represented by the senior debt facilities, which are typically provided by highly-rated, regulated financial institutions and are available to Pepper on a revolving basis subject to eligibility criteria and other terms specific to each Warehouse Facility.

Periodically, the Warehouse Facilities are refinanced through Term Securitisations involving the issuance of asset-backed securities which are long term match funding transactions placed by Pepper through the debt capital markets to a range of financial investors. Although the legal maturity of these securities is matched to the maturity of the underlying asset pool, Term Securitisations typically include early call option dates on which Pepper may, but is not obliged to, cause the early redemption of the securities. Pepper considers the exercise of such call options to be important for maintaining the confidence of its investors and hence their continued willingness to invest in its Term Securitisations at favourable pricing levels. This has been evidenced by Pepper retiring all its Term Securitisations to date in line with the expectation of underlying investors even though, at times, it would have been economically rational (had the transactions been considered in isolation) for Pepper to allow the Term Securitisations to roll beyond their call dates.

In both Warehouse Facility and Term Securitisation structures, the third-party providers of the senior facility (or senior notes) have first ranking priority over cash flows generated by the loans held by the Funding Vehicle and their contractual interest and principal repayments rank at the top (or near the top) of payment waterfalls (after certain expenses). Mezzanine funding providers' priority ranks below that of the senior funding providers. Pepper as the provider of "first loss" capital and residual unitholder receives its distributions only when the senior and mezzanine funders have received their contractual payments, and as the residual income unitholder, benefits from any additional incremental profits generated in the Funding Vehicle.

Pepper also utilises capital from funds managed by Pepper Investment Management to invest in "first loss" equity in Pepper Funding Vehicles, where appropriate. In these circumstances, Equity Note coupons and residual income are paid to Pepper Investment Management unitholders rather than Pepper.

Figure 64 summarises the process Pepper applies to fund its loan origination activities, other than in South Korea.

Figure 64: Pepper's primary funding process

Customer loans are originated → Loans are originated in or transferred to the Funding Vehicle for the Warehouse Facility → Discrete pools of loans are securitised out to debt capital markets

Pepper has long term relationships with a range of Warehouse Facility funding providers and debt capital market investors as a result of the strong credit performance of Pepper's originated and acquired loan portfolios, Pepper's strong track record as a servicer and trust manager, and its corporate performance and behaviour through the financial crisis. During the financial crisis, Pepper was still able to call all Term Securitisations at their first available call dates and successfully refinance senior lenders and restructure existing Warehouse Facilities to suit the volatile business conditions arising as a result of the financial crisis.

Pepper's strong reputation and deep relationships with its funders deliver the following benefits for the Company:

- access to low cost and highly efficient funding, enabling Pepper to support its strong growth in new lending volumes while minimising capital requirements;
- access to broad loan eligibility criteria across its debt facilities, enabling Pepper to meet the needs of a wide range of loan customers and capitalise on market opportunities; and
- strong support to originate through economic and market cycles, enabling Pepper to serve the evolving needs of its loan customers and distribution partners through a range of market conditions.

Pepper's limited-recourse financing structures transfer the risk of credit losses on mortgage portfolios to the capital providers to the Funding Vehicles. Pepper's exposure to losses is therefore limited to its rights to current and future residual income from its Funding Vehicles, along with the value of the Equity Notes that Pepper contributes as "first loss" capital to the Funding Vehicles. Should Australia experience an economic downturn which results in a material increase in losses on Pepper's mortgages, the level of income available for distribution from the Funding Vehicles will decline, resulting in a reduction in Equity Note coupons and residual income paid to Pepper by the Funding Vehicles. As losses increase beyond certain thresholds, the Funding Vehicles will cease distributing residual income and making distributions on Pepper's Equity Notes, and cash will instead be applied to repay the senior and mezzanine funding components of the Funding Vehicles; however, Pepper will have no legal obligation to contribute additional capital to offset the realised losses. In such a scenario, Pepper is able to increase the interest rate that it charges to its mortgage customers in order to offset the reduction in income due to credit losses.

The resilience of Pepper's funding model was tested during the financial crisis, when in 2008 and 2009 Pepper experienced "stop funding" events and distribution lock-ups in certain Warehouse Facilities. As a result of changes to internal bank credit approvals brought on by the financial crisis, cash generated in two of the three active funding warehouses was applied to reduce the balance of the banks' senior ranking notes until a suitable level of subordination was achieved. Pepper's Warehouse Facilities were not terminated by the senior lenders:

- one warehouse funding provider permitted origination activities during this period;
- the second warehouse funding provider permitted originations once the cash trapping achieved the required level of subordination; and
- the third warehouse funding provider was refinanced in July 2010 by one of the other bank facilities.

Pepper's demonstrated ability to fund its existing and new business throughout the financial crisis allowed it to remain active in the Australian residential mortgage market and, more importantly, to continue to call its Term Securitisations at their first available call option dates. Ultimately, this allowed Pepper to complete the first post-financial crisis, non-conforming mortgage Term Securitisation globally in December 2010 (PRS 8). Since the financial crisis, Pepper has significantly broadened its funding base and diversified its sources of income to improve the Group's resilience to a significant reduction in market liquidity. Pepper has also reduced its reliance on the debt capital markets with the development of Whole Loan Sale programs.

Pepper manages a diversified platform of Warehouse Facilities and Term Securitisations globally, reflecting the scale of the business and Pepper's deliberate strategy of optimising the terms of each funding facility to minimise funding costs and capital requirements.

2.7.2.1 Pepper's Warehouse Facility funders

Pepper's major bank funding partners have been highly supportive over time, providing continuous financing support throughout Pepper's operating history.

As of 31 December 2014, Pepper had the following wholesale funding partnerships with three of the four major Australian banks and three international investment banks. As noted in Table 23, Pepper's Warehouse Facilities are dedicated to specific asset classes and regions, which is a standard practice in the structured finance market.

Table 23: Current Warehouse Facilities as at 31 December 2014

Segment	Senior funding partners	Mezzanine funders	Total commitments	Current balance
Australia and New Zealand Division origination warehouses	3 major Australian banks	3 investors	$1.7 billion	$1.1 billion
Australia and New Zealand Division acquisition warehouses	3 major Australian banks	10 investors	$1.0 billion	$1.0 billion
International Division origination warehouses	1 major Australian bank 1 global investment bank	1 global investment bank and 1 additional investor	$0.4 billion	$0.02 billion
Total Warehouse Facilities			**$3.1 billion**	**$2.1 billion**

Pepper's Warehouse Facilities are structured in accordance with typical practices in the relevant structured finance markets in which its business operates. Warehouse Facilities are underpinned by a range of covenants, including "stop origination" events, amortisation events and default events, which are linked to factors such as the diversity of the funded loan portfolio, the arrears and loss performance of the warehouse loan portfolio and the corporate performance of Pepper as servicer and trust manager. Warehouse Facilities are typically structured with 12 months to 36 months maturities and renewed on a regular basis. Currently, Pepper's Australian residential mortgage and consumer loan Warehouse Facilities are renewed annually while Pepper's Australian asset finance Warehouse Facility is renewed every three years (the next roll date occurs in 2017). In Europe, the United Kingdom residential mortgage loan Warehouse Facility and Spanish consumer loan Warehouse Facility are due for renewal in 2017.

At the Warehouse Facility roll dates, the funders and Pepper have the opportunity to renegotiate the interest margin, fees and term of the relevant facilities. The funders also have the ability to not renew their facilities at the roll dates (subject to contractually agreed minimum notice periods); however, given Pepper is the originator and servicer of these assets, has a long history of managing these assets in Australia, and long term and deep institutional relationship with the relevant funders, Management believes it is unlikely that funders will not renew their Warehouse Facilities at the respective roll dates.

In the event of non-renewal of Warehouse Facilities, Pepper has other options to refinance the facilities including but not limited to Term Securitisations, Whole Loan Sales, refinancing to other existing facility providers, or funding with new alternative funding partners.

Pepper's ability to raise significant volumes of senior debt, mezzanine debt and "first loss" equity for funding its loan assets has been consistently demonstrated over the last 14 years, evidenced by the significant platform acquisitions and repeat Term Securitisations it has completed in Australia and overseas during the period. Pepper's senior and mezzanine debt funders have provided Warehouse Facilities for the purpose of acquiring loan assets totalling $5.8 billion since the financial crisis, comprising prime and non-conforming residential mortgage loans, auto and equipment finance receivables, and small-balance commercial mortgage loans in the Australia and New Zealand Division.

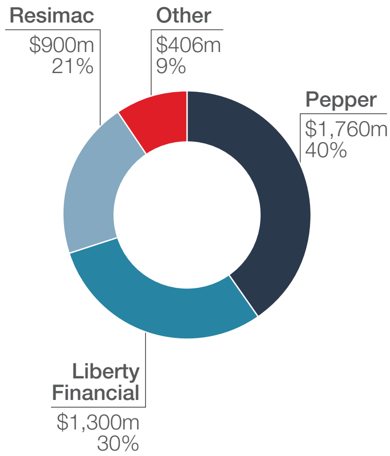
2.7.2.2 Pepper's securitisation history

Pepper is a regular issuer in the Australian residential mortgage-backed securities market through its Pepper Residential Securities (**PRS**) program for non-conforming residential mortgages and the Pepper Prime Trust (**PPT**) program for prime residential mortgages. Pepper has earned a strong reputation in both the Australian and international securitisation markets underpinned by its proven ability to regularly issue new securities to support the Company's ongoing funding requirements, given:

- Pepper's issuance history with $4.3 billion of non-conforming residential mortgage-backed securities issued since 2003;
- Pepper has called all of its PRS transactions at their earliest available call option dates;
- total realised cumulative losses for the combined PRS transactions have been $16.6 million, equating to an average annualised cumulative loss rate of 13 basis points (0.13%) per annum; and
- Pepper has also issued $1.6 billion of prime residential mortgage-backed securities since 2012, with no realised losses incurred to date.

Since 2008, Pepper has been the most active issuer in the non-conforming residential mortgage-backed securities market in Australia. Pepper has recently been able to access cheaper funding in the residential mortgage-backed securities market relative to that of its peers, as its leading loan servicing capabilities and sound credit underwriting reputation have favourably influenced residential mortgage-backed securities ratings and related transaction pricing.

Figure 65: Non-conforming residential mortgage-backed securities issuance in Australia by issuer since 2008



Source: *Moody's report, Australian non-conforming Loans are Higher Quality than Pre-2008 United States and United Kingdom Equivalents, August 2014*

Pepper has delivered a strong pipeline of Term Securitisations to the Australian market over time and the ensuing pattern of relatively low annualised cumulative losses incurred across the various transactions demonstrates Pepper's strong credit underwriting capabilities and the relative strength of its post-settlement loan servicing and collections management capabilities.

The following tables outline the strong track record of regular issuance, low credit losses and call history of Pepper's Term Securitisations over time.

Table 24: Pepper non-conforming residential mortgage-backed securities track record

	Deal size	Issuance date	Date called	Annualised cumulative losses
NCM-01	$184 million	April 2003	February 2006	0.01%
NCM-02	$200 million	October 2003	February 2007	0.07%
Pepper Residential Securities Trust No 3	$250 million	September 2004	April 2007	0.30%
Pepper Residential Securities Trust No 4	$300 million	June 2005	October 2008	0.20%
Pepper Residential Securities Trust No 5	$400 million	May 2006	August 2010	0.17%
Pepper Residential Securities Trust No 6	$600 million	March 2007	December 2011	0.09%
Pepper Residential Securities Trust No 7	$200 million	November 2007	March 2012	0.11%
Pepper Residential Securities Trust No 8	$260 million	December 2010	January 2014	0.27%
Pepper Residential Securities Trust No 9	$300 million	May 2012	–	0.27%
Pepper Residential Securities Trust No 10	$350 million	April 2013	–	0.15%
Pepper Residential Securities Trust No 11	$350 million	October 2013	–	0.04%
Pepper Residential Securities Trust No 12	$500 million	April 2014	–	0.06%
Pepper Residential Securities Trust No 13	$400 million	October 2014	–	0.00%
Total	**$4,294 million**			**0.13%**

Table 25: Prime securitisation track record

	Deal size	Issuance date	Date called	Annualised cumulative losses
2012-1	$500 million	November 2012	–	0.01%
2013-1	$500 million	August 2013	–	0.01%
2014-1	$297 million	April 2014	–	0.00%
2015-1	$350 million	April 2015	–	0.00%
Total	**$1,647 million**			**0.13%**

2.7.2.3 Pepper's securitisation structures

Securitisation is the creation and issuance of securities or other debt obligations whose payments of principal and interest are derived from the cash flows generated by a pool of assets. In Pepper's case, these pools of assets are usually non-conforming or prime residential mortgages. Pepper originates or sells loans into Funding Vehicles where it securitises the loan portfolios through the issuance of senior, mezzanine and junior notes to third-party institutional and professional fixed income investors. The most junior note is typically funded and retained by Pepper, along with the rights to the residual income from the Funding Vehicles. Pepper may selectively sell its "first loss" capital or utilise capital from third parties including Pepper Investment Management. Pepper earns management fees for managing the Funding Vehicles and servicing fees for servicing the underlying loan portfolio, as well as coupon interest income and residual income on its "first loss" capital.

Table 26 summarises the key general terms of Pepper's key Warehouse Facility platforms in the Australian mortgage origination business.

Table 26: Overview of Australian origination Warehouse Facilities (31 December 2014)

Overview	Non-conforming mortgage warehouses	Prime mortgage warehouses
Limit	• Total limit: $1.1 billion • Drawn: $0.65 billion	• Total limit: $0.4 billion • Drawn: $0.36 billion
Commitments	• Senior facility commitments are provided by three domestic financial institutions, with drawing subject to agreed conditions linked to loan characteristics, appropriate level of subordination and other conditions • Mezzanine facilities, which rank behind those of the senior funders but senior to Pepper's "first loss" capital contribution, are provided by a number of institutional investors	• Senior facility commitment is provided by one domestic financial institution, with drawing subject to agreed conditions linked to loan characteristics, level of over-collateralisation and other conditions • Mezzanine facility, which ranks behind those of the senior funder but senior to Pepper's "first loss" capital contribution, is provided by one institutional investor; however drawing remains subject to a consent right from the investor
Purpose	• Utilised to fund origination of non-conforming residential mortgages • Can be utilised to fund the repurchase of PSR trusts at the call option dates	• Utilised to fund origination of prime residential mortgages • Can be utilised to fund the repurchase of Pepper Prime Trusts at the call option dates

Overview	Non-conforming mortgage warehouses	Prime mortgage warehouses
Eligibility criteria	• Pepper and the Warehouse Facility funders agree in advance (including amendments as part of the annual review process) the types of residential mortgages that can be originated into or sold to the Funding Vehicles. In addition to the nature of the mortgage borrower, the eligibility criteria sets limits on the concentration of certain loan features in the relevant Warehouse Facility • Examples of features which form part of the eligibility criteria include: loan size, LVR, interest-only versus principal and interest, and the assignability, enforceability and compliance with laws and Pepper's credit policies of the loan assets. Criteria can be amended from time to time with the approval of the senior and mezzanine funders • The eligibility criteria are typically tested when new loan assets are added to the Warehouse Facility pool and representation made in this respect at that time	
Tenor	• Warehouse Facility commitments are subject to renewal by funding providers every year • If facilities are not renewed as part of the annual renewal process, the facilities generally will need to be refinanced or will have amortisation or default provisions • Pepper has the flexibility to extend the tenor of its facilities if desired; however, given its strong relationships with its lenders, Pepper has accepted shorter review periods in order to optimise pricing and flexibility	
Limited-recourse	• The third-party funders of Pepper's Warehouse Facilities accept the credit risk of the underlying pools of residential mortgages as the source of payment of their interest and principal • Third-party funders' recourse to Pepper is limited to the following exceptions: – "first loss" capital provided by Pepper in the form of residual income entitlements and Equity Notes; and – as the trust manager, servicer and, where relevant, originator, Pepper provides certain representations, warranties and indemnities or has certain obligations which, if breached, could result in third-party funders having recourse to Pepper, or Pepper, in certain circumstances, having to post collateral or repurchase assets from the relevant Funding Vehicles	
"First loss" capital from Pepper	• Pepper is required to contribute and typically continues to hold a small percentage of "first loss" capital in the form of Equity Notes, and/or to provide limited guarantees which provide credit support to the senior and mezzanine funders by absorbing the losses of the collateral after Pepper's entitlement to residual income has first been exhausted • The amount of such credit support provided by Pepper is driven by the credit requirements of the senior and mezzanine funders which are in turn a function of the relative riskiness of the underlying Warehouse Facility assets and, in the case of funders regulated in certain jurisdictions (including the European Union) "skin in the game" requirements which mandate that originators such as Pepper retain a minimum risk position (generally representing at least 5% of the asset pool) in their securitisation structures	
Residual income	• Pepper owns the residual income unit in each of its Warehouse Facilities, entitling it to 100% of the net profit of the trusts subject to no breaches of covenants or other lock-up or amortisation triggers	

A description of the key legal terms of the Warehouse Facilities can be found in Glossary.

Table 27: Overview of residential mortgage-backed securities issuance platforms as at 31 December 2014

Overview	PSR Trust series	Pepper Prime Trust series
Limit	• As at 31 December 2014, Pepper has five residential mortgage-backed securities issuances outstanding under this platform (refer to Table 24) • The balance of PSR Trust issuance outstanding is $1.3 billion	• As at 31 December 2014, Pepper has three residential mortgage-backed securities issuances outstanding under this platform (refer to Table 25) • The balance of Pepper Prime Trust issuance outstanding is $0.8 billion
Purpose	• Issuance under PSR Trust series is used to refinance drawings under non-conforming residential mortgages	• Issuance under Pepper Prime Trust Series is used to refinance drawings under prime residential mortgages
Benefits to Pepper	• Creates additional capacity in Warehouse Facilities to fund new loan originations • Diversifies the funding sources for Pepper's origination businesses • Lowers the cost of funding for Pepper	
Eligibility criteria	• Securitisation platforms are closed end, meaning assets are not added to the portfolio over time but eligibility criteria must still be satisfied at the time of the establishment of the securitisation transaction • The characteristics of the loans included in the securitisations are a function of the desired leverage and funding costs and are established upfront and include criteria of the kind referred to in Table 26.	
Tenor	• Residential mortgage-backed securities issuance is match funded, meaning the tenor of the funding matches the tenor of the assets in the trusts; however, Pepper typically has the right (which it is not obliged but expected to exercise) to cause the redemption of the securities by repurchasing or refinancing the underlying assets, typically after 3, 4 or 5 years or once the original securitised loan portfolio has amortised to a pre-agreed percentage (typically 20%)	
Limited-recourse	• Capital markets investors in Pepper's securitisation accept the credit risk of the underlying pool of residential mortgages as the source of payment of their interest and principal • Recourse to Pepper is limited to the following exceptions: – "first loss" capital provided by Pepper in the form of investment in junior ranking notes; – in some cases Pepper may also provide a limited guarantee to satisfy "skin in the game" requirements (see below); and – as the trust manager, servicer and, where relevant, originator Pepper provides certain representations, warranties and indemnities or has certain obligations which, if breached, could result in third-party funders having recourse to Pepper or Pepper, in certain circumstances, having to post collateral or repurchase assets from certain Funding Vehicles	
"First loss" capital from Pepper	• Pepper is required to hold a small percentage of "first loss" capital, typically in the form of Equity Notes, which provides credit support to the senior and mezzanine funders by absorbing the losses of the collateral after Pepper's entitlement to residual income has first been exhausted • The quantum of the Equity Notes is driven by the credit requirements of the senior and mezzanine funders which are in turn a function of the relative riskiness of the underlying collateral and, in the case of funders regulated in certain jurisdictions (including the European Union) "skin in the game" requirements which mandate that originators such as Pepper retain a minimum risk position (generally representing at least 5% of the asset pool) in their securitisation structures	
Market access	• Securitisations are closed end trusts and are not committed. Pepper monitors the securitisation market and targets regular issuance in order to maintain a diversified pool and regular investor dialogue • Residential mortgage-backed securities issuance is not a committed facility for the origination of mortgages	
Residual income	• Pepper owns the residual income unit in each of its securitisations, entitling it to 100% of the net profit of the trusts subject to no breaches of covenants or other lock-up or amortisation triggers	

A description of the key legal terms of the Term Securitisation issuances can be found in Section 8.5.2.

Summary of Pepper Asset Finance Warehouse Facility

Pepper Asset Finance was funded by a single Warehouse Facility at 31 December 2014. Its operation is largely similar to that of the mortgage Warehouse Facilities described above; however, its tenor is for three years, ending in 2017, to allow the business to develop sufficient lending history to establish an asset-backed securities program. Lending history is required by rating agencies to allow an asset-backed securities deal to have an efficient structure and be independently rated. Management is planning to obtain a second asset finance Warehouse Facility in 2015.

Summary of European Warehouse Facilities

Pepper's European Warehouse Facilities are structured using "orphan" special purpose companies incorporated in England and Ireland. Funding (including Pepper's equity contribution) is provided by way of debt secured on the assets of the vehicle (the loan portfolios). Pepper is appointed as servicer of the loan portfolios.

The Spanish personal loan origination business is funded by a single Warehouse Facility provided by an international investment bank. Currently, the facility has sufficient subordination provided by Pepper's "first loss" Equity Loans to continue to originate without the need for a mezzanine investor. The facility's operation is similar to that of the Australian mortgage Warehouse Facilities described above. The Spanish Warehouse Facility comprises four note tranches, with the senior and mezzanine note tranches funded by the international investment bank and the junior tranches funded by Pepper.

The United Kingdom residential mortgage lending business is funded by a senior Warehouse Facility provided by a major Australian bank and with mezzanine funding provided by an Australian third-party investor. The facility's operation is similar to that of the Australian Warehouse Facilities described above.

Pepper has also acquired pre-existing residential mortgage and consumer loan portfolios in Spain and Ireland as part of its platform acquisitions in those countries. These portfolios are now in run-off and are housed in special purpose companies, in structures similar to that of the European Warehouse Facilities. However, in the case of these structures, funding is provided on a static rather than a revolving basis.

2.7.3 Funding through deposits in South Korea

Pepper has access to a growing base of South Korean retail customer deposits to fund its loan origination activities in South Korea. As of 31 December 2014, retail customer deposits totalled $329 million. Refer to Section 2.6.6 for further details.

2.7.4 Pepper Investment Management Funds

Pepper Investment Management Pty Ltd (**Manager**), a wholly owned subsidiary of Pepper Investment Management Holdings Limited (**PIM**), acts as the manager of Pepper Investment Management High Income Fund (**Pepper High Income Fund**) and Pepper Investment Management Investment Grade Credit Fund (**Pepper Investment Grade Fund**). It also acts as trustee for a series of closed end managed investment trusts (collectively, the **PIM Funds**).

The PIM Funds are unregistered managed investment schemes that accept applications for units from wholesale investors only. The Pepper High Income Fund invests in a pool of eligible assets focused on opportunities in residential mortgages and leasing receivables. The Pepper Investment Grade Fund invests in domestic investment grade credit assets, including investment grade rated residential mortgage-backed securities.

The PIM Funds are primarily funded by contributions from third-party wholesale investors. Pepper was also responsible for making start-up contributions to the Pepper High Income Fund, but it has now sold down the majority of its units and is under no obligation to make further contributions.

A sizeable proportion of the assets of the Pepper High Income Fund are investments in the notes issued by Funding Vehicles (including the Equity Notes of certain trusts) containing assets originated, managed or serviced by Pepper, and a small proportion (capped at 25%) of the assets of the Pepper Investment Grade Fund are investments in assets originated, managed or serviced by Pepper. The PIM Funds therefore provide an additional pool of demand for assets originated, managed or serviced by Pepper, as well as investing in retail mortgage-back securities issuance by third-party managers.

The PIM Fund constitutions contain rules for the investment of the PIM Funds, and for issue and redemption of units of the PIM Funds. If significant redemptions occurred, that could require sale of assets of the PIM Funds, which could have an effect on the market for assets of the relevant type (although various constraints apply to large redemptions, to seek to mitigate the risk of adverse market effects). There is no requirement for the trustee of the PIM Funds to meet redemptions from its own funds, and the Manager is also not required to create liquidity for investors in the PIM Funds other than by using best endeavours to sell underlying assets of the PIM Funds to enable redemption. Furthermore, where the Pepper High Income Fund or Pepper Investment Grade Credit Fund invest in Equity Notes issued by Pepper-controlled Funding Vehicles, the relevant Funding Vehicle has no obligation to provide liquidity on an accelerated basis (i.e. any earlier than the relevant Equity Notes would otherwise provide a return).

2.7.5 Overview of Corporate Debt Facilities

See Section 3 for a summary of the Corporate Debt Facilities.

2.8 Risk management

Risk management is an integral part of Pepper's business model ensuring the risk management framework remains relevant, appropriate and aligned to the Board's approved strategy and priorities.

Pepper's risk management philosophy classifies Pepper's risk into two categories:

- **Franchise risk management:** Focuses on evaluating and optimising risk/reward trade-offs where Pepper may expect larger potential returns by assuming different levels of risk; and
- **Enterprise risk management:** Focuses on monitoring compliance with limits in the franchise risk management sphere and more broadly on the risks confronting Pepper that are not rewarded and are, thus, minimised to the degree practical.

2.8.1 Risk management program

The culture of strong risk management permeates through the Pepper organisation and is a prerequisite for solid corporate governance. By facilitating the flow of information and stressing communication across the Group, the risk management program provides a continuous loop risk information model. This model provides information regarding stakeholder needs and expectations to continuously improve the enterprise-wide risk strategy.

Through regular training and communication, risk management is embedded in the day-to-day operations across all levels of the Group. Recognising their responsibility for risk and control, Pepper employees proactively identify and avoid risks in all areas of operations.

All employees are expected to demonstrate appropriate standards of behaviour in the implementation of strategy and pursuit of Group objectives. Management and employees:

- consider all forms of risk in decision-making initiatives;
- take a Group-level portfolio view of franchise risk;
- retain ownership and accountability for risk and risk management at the business level. Risk management does not defer accountability to others;
- strive to achieve, or advance, best practices in risk management;
- monitor compliance with risk policies and procedures and report breaches to appropriate levels through proper escalation channels;
- leverage risk management practices wherever they exist within the Group (i.e. from subsidiaries or new acquisitions);
- document and report all significant risks and deficiencies on a timely basis to the Group Chief Risk Officer and/or the Audit and Risk Committee; and
- accept that risk management is mandatory and not optional.

2.8.1.1 Credit risk management

Pepper has a strong, established risk management team who bring together a wealth of knowledge and experience in loan origination, servicing and arrears management capabilities across the Group.

- **Credit risk:** Credit risk is managed locally by Heads of Credit, Chief Risk Officer and/or Chief Operating Officer within each jurisdiction and reported to the local credit committees.
- **Credit policy and processes:** These processes are established in each jurisdiction based on qualitative and quantitative data relating to customer profile, customer behaviour, repayment history, arrears data, loss recovery rates, data from credit bureaus, legislative and licensing obligations and other factors.
- **Product development:** Product development is initiated by the credit risk team (rather than the local sales team) in consultation with the local risk team.
- **Team:** The credit risk team operates independently from the sales team. Pepper's credit risk staff are experienced and are provided with Delegated Lending Authorities after successful completion of intensive training programs. Each business that originates new loans has bespoke origination systems. Pepper uses credit scorecards only for preliminary

assessment of unsecured facilities in some businesses. All loan applications are manually verified by a credit risk staff member prior to final approval. Quality Assurance Programs are established within each jurisdiction to monitor the quality of underwriting decisions.

- **Arrears management and loss recovery:** Each local business unit has arrears management strategies executed by experienced staff and managed through technology systems. Arrears and loss data are reviewed by the local credit committees and influence the product development, credit policy and assessment process.

2.8.1.2 Fraud risk management

Pepper actively manages its exposure to fraudulent and corrupt conduct by counterparties such as finance brokers, dealers, customers and staff. Fraud detection and preventive procedures are embedded within business processes to identify and mitigate the risk of fraud within each business operation. Pepper has access to fraud detection tools and databases, and collaborates with a network of financial institutions in each local business to assist in identifying, investigating and mitigating fraud. Additionally, Pepper has established a variety of internal controls to mitigate the likelihood of occurrence and the consequence of loss by fraud. These include instituting segregation of duties, manual verification of documents at origination, dual signatures on critical processes, exception reporting and independent audits. Pepper also has a Whistle Blowing Policy that provides Pepper staff with a mechanism to report these incidents confidentially without fear of reprisal, dismissal or discriminatory treatment.

2.9 Regulatory overview

Pepper operates in a regulated environment across its various geographical locations and has to comply with the local financial services regulation systems. Table 28 enlists the key regulatory oversights in each of the geographies where Pepper operates.

Table 28: Regulatory overview in geographies where Pepper operates

Geography	Regulator	Overview
Australia	*ASIC*	• The Company is primarily regulated by ASIC and under the *National Consumer Credit Protection Act 2009* (Cth) (**NCCP Act**). The Company's obligations include requirements relating to competence, training, management of conflicts of interests and to: – have an internal dispute resolution process and be a member of an approved external dispute resolution scheme; – hold a professional indemnity insurance policy; – have adequate compliance arrangements and systems; – do all things necessary to ensure that the credit activities are engaged in efficiently, honestly and fairly; and – comply with the credit legislation. • The Company holds an Australian Credit Licence and an Australian Financial Services Licence, both of which are regulated by ASIC and allow the Company to engage in certain credit activities. • Pepper Asset Finance holds an Australian Credit Licence. • Pepper Property Group, Pepper Property Advisory and Pepper Investment Management each hold an Australian Financial Services Licence. • Brokers must either hold an Australian Credit Licence or be a credit representative of a licensee (which may be Pepper).
Ireland	*Central Bank of Ireland*	• Pepper Ireland is registered with the Central Bank of Ireland as an insurance/reinsurance intermediary under the European Communities (Insurance Mediation) Regulations, 2005 (as amended).

Geography	Regulator	Overview
United Kingdom	*Financial Conduct Authority*	• Pepper United Kingdom is regulated by the Financial Conduct Authority in the United Kingdom (registration number 484078) and, has permission to carry out a range of regulated activities to service mortgage, retail and commercial customers. • Pepper United Kingdom is also authorised by the Financial Conduct Authority to originate residential mortgage loans, including non-conforming mortgages and buy to let (investor) mortgages.
Spain	*Spanish Ministry of Justice*	• Pepper in Spain is registered with the national registry of companies under Law 2/2009, of March 31, which is for (i) those entities – other than credit entities – granting mortgage loans or credit, and (ii) for credit intermediaries.
South Korea	*FSC*	• Pepper in South Korea is licensed as a mutual savings bank under the Mutual Savings Bank Act (South Korea). • The primary regulators of the mutual savings banks in South Korea are the FSC and the FSS.
	Financial Supervisory Service (FSS)	• FSS is a supervisory institution – geared for on-site supervision and examinations in its commitment to establish itself as a financial regulator that markets and consumers trust.
	Bank of Korea	• The Bank of Korea may, when the South Korean Monetary Policy Committee deems it necessary for the implementation of monetary and credit policies, request the FSS to perform an examination of a bank and/or other financial institutions, or ask that its staff jointly participate in an FSS-led examination.
	Korea Deposit Insurance Corporation (KDIC)	• KDIC is a deposit insurance corporation, established to protect depositors and maintain the stability of the financial system. It derives its obligations and powers from the Deposit Protection Act. The major functions of KDIC can be classified into five categories being insurance management, risk surveillance, resolution, recovery, and investigation. • KDIC insures banks, financial investment companies, life and non-life insurance companies, merchant banks and mutual savings banks. It insures bank deposits, customers' deposits for securities trading and individual insurance policies.

2.10 Systems and technology expertise

Pepper business technology services support a geographically diverse domestic lending and servicing operation. Each global location operates a core asset administration platform specifically tailored to meet regulatory, compliance and operational requirements in their specific market. The ongoing development and operation of these platforms are led by localised IT management and expertise that have been purposefully aligned to the local business drivers and outcomes. Pepper's core administration platforms have tenure and maturity with inherent stability exceeding 10 years, closer to 20 years for some markets. The current technology team of 60 employees operates across four distinct technical areas; core lending platforms, digital Innovation, data warehouse and infrastructure services.

Pepper's philosophy is to empower localised technology management and staff to meet the innovation needs of the business, while Pepper's global executive IT management maintains oversight and governance through the Global Executive Technology Governance Committee. The Committee sets policy and direction for security standards, resource management, reuse of technology, platform architecture and IT budgetary controls.

By way of example in Pepper's Ireland business, management leveraged its specialised systems to replace a less than fit-for-purpose system in its acquired business in Ireland for a more flexible workflow optimised system from Australia which was able to accommodate the Central Bank of Ireland Mortgage Arrears Resolution Process requirements. Pepper's Australian sourced system endowed Pepper Ireland with a comparative advantage to those with legacy systems, particularly to those that are unable to as easily comply with the mandatory Mortgage Arrears Resolution Process requirements.

The goal of Pepper's technology policy remains to deliver stable and available core administrative systems, while empowering a dynamic working culture that unlocks business opportunity through rapid delivery of digital and data-driven business initiatives.

Pepper's infrastructure is a combination of on-premise technology with an increased move towards commoditised services. A guiding architectural principle is to leverage infrastructure service providers and platforms where vendors meet Pepper's strict information security and regulatory guidelines. Pepper's focus remains on protecting the privacy of its customers while delivering a flexible infrastructure platform for growth and business agility. Pepper's strategy is to focus technology resources on direct business enablement and leverage commoditised services where partners prove they can deliver an improved service and customer experience.

The team consistently demonstrates the capability to partner with Pepper's business leaders in assessing the complexity and cost of integrating small and large acquisition targets into Pepper. The team is highly experienced and successful with onboarding loan portfolios into Pepper's core platforms and working collaboratively with the selling parties.

03.

Financial Information

03. FINANCIAL INFORMATION

3.1 Background to limited-recourse Funding Vehicles

Pepper's business model involves originating, securitising, servicing and managing portfolios of loans. Where loans are originated or acquired in Australia, New Zealand, Ireland, the United Kingdom and/or Spain, they are initially held in limited-recourse Warehouse Facility Funding Vehicles and then periodically refinanced into Term Securitisation Funding Vehicles. While in the Warehouse Facility and/or Term Securitisation Funding Vehicles, the assets are funded by Pepper's funding providers (primarily banks and institutional investors) who have recourse only to the assets in the relevant Funding Vehicles including Pepper's "first loss" and entitlement to residual income.

Pepper has exposure to the returns generated by the Funding Vehicles through its holding of the "first loss" tranches or Equity Notes in each Funding Vehicle and also as the residual income unitholder for which Pepper receives an entitlement to residual income distributions, after payment of contractual servicing fees and trust management fees (also to Pepper) and contractual coupon interest expense to all other third-party institutional investors having a higher ranking priority of payment. In certain instances, third-party institutional investors also own interests in the Equity Notes and residual income units; however, this is less common. All the borrowings of the Funding Vehicles are secured by the loan receivables owned by the relevant Funding Vehicles.

In addition to the above, Pepper South Korea's loan originations are funded on-balance sheet primarily through retail customer deposits. Pepper has a long term strategy to use customer deposits to fund South Korean originations, as there is a limited market for securitisation and warehouse funding in South Korea, unlike in Pepper's other core markets. Pepper Spain also initially funds its current month's loan originations on-balance sheet before materially transferring this production to a limited-recourse Funding Vehicle in the following month, although it is possible that in the future originated loans may be immediately transferred to the Funding Vehicle.

3.2 Introduction

Financial information for Pepper contained in this Section 3 is summarised in Table 29 for CY2012, CY2013, CY2014 and CY2015 (**Financial Information**):

Table 29: Summary of the Financial Information in Section 3

	Statutory Financial Information (including limited-recourse Funding Vehicles)	Pro Forma Financial Information (excluding limited-recourse Funding Vehicles)
Historical Financial Information	• **Statutory Historical Financial Information** includes the: – statutory historical consolidated income statement for CY2012, CY2013 and CY2014 (**Statutory Historical Income Statements**); and – statutory historical consolidated statement of financial position as at 31 December 2014 (**Statutory Historical Balance Sheet**)	• **Pro Forma Historical Financial Information** includes the: – Pro Forma historical income statement for CY2012, CY2013 and CY2014 (**Pro Forma Historical Income Statements**); – Pro Forma historical cash flow before corporate financing and tax for CY2012, CY2013 and CY2014 (**Pro Forma Historical Cash Flows**); and – Pro Forma historical statement of financial position as at 31 December 2014 (**Pro Forma Historical Balance Sheet**)
Forecast Financial Information	• **Statutory Forecast Financial Information** comprises: – statutory forecast consolidated income statement for CY2015 (**Statutory Forecast Income Statement**); and – statutory forecast consolidated net cash flows for CY2015 (**Statutory Forecast Cash Flows**)	• **Pro Forma Forecast Financial Information** comprises: – Pro Forma forecast income statement for CY2015 (**Pro Forma Forecast Income Statement**); and – Pro Forma forecast net cash flows for CY2015 (**Pro Forma Forecast Cash Flows**)

Also in this Section 3 and Appendix A are:

- A summary of the basis of preparation and presentation of the Financial Information (see Section 3.3);
- A description of the Pro Forma adjustments to the Statutory Historical Financial Information and reconciliations between the Statutory Historical Financial Information and the Pro Forma Historical Financial Information (see Section 3.4.1);
- A description of key drivers affecting Pepper's business and management's discussion and analysis of the Pro Forma Historical Financial Information (see Section 3.8.1);
- The Directors' general assumptions and best estimate assumptions (see Sections 3.9.1 and 3.9.2) underlying the Pro Forma Forecast Financial Information and key sensitivities in respect of the Pro Forma Forecast Financial Information (see Section 3.11);
- A description of Pepper's capitalisation and indebtedness, debt facilities, liquidity and capital resources (see Section 3.6.1);
- A description of Pepper's proposed dividend policy (see Section 3.12); and
- A description of Pepper's significant accounting policies (see Appendix A).

The information in this Section 3 should also be read in conjunction with the risk factors set out in Section 4 and other information contained in this Prospectus.

All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $0.1 million.

3.3 Basis of preparation and presentation of the Financial Information

3.3.1 Overview

The Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the underlying historical financial performance, cash flows and financial position of Pepper, together with forecast financial performance and cash flows for CY2015.

The Statutory Historical Financial Information and Statutory Forecast Financial Information have been prepared and presented in accordance with the recognition and measurement principles of the AAS, which are consistent with the International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board (**IASB**), although they are presented in an abbreviated form insofar as they do not include all the disclosures, statements or comparative information as required by the AAS applicable to annual financial reports prepared in accordance with the Corporations Act.

In preparing the Statutory Historical Financial Information and Statutory Forecast Financial Information, the accounting policies of Pepper have been applied consistently throughout the periods presented. Pepper's significant accounting policies and selected notes relevant to the Financial Information are set out in Appendix A.

3.3.1.1 Consolidation of Funding Vehicles

The Statutory Historical Financial Information and Statutory Forecast Financial Information in this Prospectus have been prepared on a consolidated basis in accordance with AASB 101 *Presentation of Financial Statements* and AASB 10 *Consolidated Financial Statements*. Under the criteria specified within these standards, Pepper consolidates the assets and liabilities, and income and expenses, pertaining to the limited-recourse Funding Vehicles that Pepper is deemed to control for accounting purposes due to the combination of Pepper's investment in each Funding Vehicle (exposure to variable interest) and Pepper's role as servicer (power to influence those variable returns).

In addition to the limited-recourse Funding Vehicles, Pepper also consolidates the assets and liabilities, and income and expenses, pertaining to the PIM Funds. Pepper, via Pepper Investment Management Pty Ltd, has contributed start-up contributions in the PIM Funds and provides the PIM Funds with management services.

3.3.1.2 Pro Forma Financial Information

Pepper's ability to influence the Funding Vehicles is however, commercially limited as a result of the nature of these Funding Vehicles. Pepper is unable to unilaterally sell the portfolios to realise value in the assets, nor to use its own cash to repay the liabilities. Pepper's financing of the Equity Notes in the Funding Vehicles, which are usually the "first loss" tranches, is a small minority of total financing raised, and all the borrowings in the Funding Vehicles are limited-recourse to Pepper.

In addition, the statutory consolidated information also eliminates any income generated by Pepper as servicer and manager for the Pepper-controlled Funding Vehicles, providing investors with little visibility of the risk profile of different income streams. Therefore, the way the business is reported for statutory purposes is inconsistent with the way the business is managed, the risk profile attached to the income streams and the manner in which investors evaluate similar businesses. The Directors believe the most appropriate presentation of Financial Information is therefore net of the assets and liabilities, and income and expenses, pertaining to the limited-recourse Funding Vehicles.

On a similar basis to the limited-recourse Funding Vehicles, Pepper's ability to influence the PIM Funds is commercially limited by arrangements to mitigate any conflict of interest between the investing activities of the PIM Funds and Pepper's role as fund manager. The Directors believe the most appropriate presentation of Financial Information is exclusive of the assets and liabilities, and income and expenses, pertaining to the PIM Funds. Furthermore, the Directors consider the income and expenses recorded by Pepper Investment Management Pty Ltd in its role as manager of the PIM Funds to not be material to Pepper Group. References in this Prospectus to the exclusion of limited-recourse Funding Vehicles in the preparation of the Pro Forma Financial Information also apply to the PIM Funds unless explicitly stated otherwise.

The above approach is reflected in the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information in this Prospectus. This is consistent with Management's approach to managing the business, and their expected approach to reporting operating segments post the Initial Public Offering, based on Management's current reporting model.

This Prospectus includes Forecast Financial Information based on the general and specific assumptions of Pepper. The Forecast Financial Information presented in this Prospectus is unaudited. The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation of the Historical Financial Information.

The Financial Information presented in this Prospectus has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Fundraising and/or Prospective Financial Information by Deloitte Corporate Finance Pty Limited, as stated in its Investigating Accountant's Report on the Historical Financial Information and the Forecast Financial Information provided in Section 7. Investors should note the scope and limitations of the report.

3.3.1.3 Treatment of international acquisitions and corporate reorganisation in the Pro Forma Financial Information

Pepper's operations in Europe commenced in September 2012 with the establishment of the Pepper asset servicing business in Ireland following the acquisition of the GE Capital's Irish mortgage business and the award of the servicing contract to manage GE Capital's mortgage portfolio that was acquired concurrently with the platform in which Pepper was a small co-investor. The business acquisition and the co-investment were originally made by Pepper Europe Holdings Pty Ltd (**Pepper Europe**), an entity with common control to that of Pepper Australia Pty Ltd (**PAPL**). In February 2013, Pepper Europe established Pepper Spain in Madrid, having acquired the Celeris Group's servicing and origination platform and a personal loan portfolio.

Pepper undertook a reorganisation of its legal entity structure in June 2013 whereby Pepper Europe was acquired by PAPL. In September 2013, PAPL also acquired 100% of the issued share capital of the Oakwood Group of companies including Oakwood Global Finance LLP (**Oakwood**), a leading loan servicing platform in the United Kingdom.

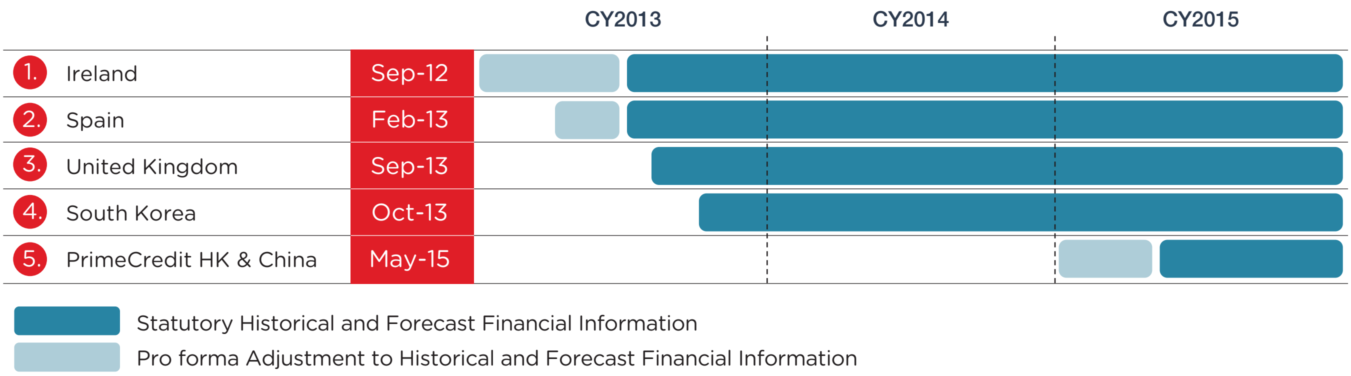
Given the legacy corporate structure, the Statutory Historical Financial Information that is based on the audited accounts of PAPL reflects the results of the European operations from July 2013 (post the corporate reorganisation). As a result, the CY2013 statutory results for Pepper reflect six months of trading for the Ireland and Spain businesses, and results of Oakwood from the point of acquisition.

The Pro Forma Historical Financial Information for CY2013 has been adjusted to include the actual results of Pepper Europe for the first six months of the year i.e. including Ireland from 1 January 2013 and Spain from the date of acquisition of the business (February 2013). Results for the Ireland operations prior to 1 January 2013 (from September to December 2012) have not been included in the Pro Forma Historical Financial Information for CY2012 as the Irish business did not form part of the reporting of financial results reviewed by Pepper Australia management during the period immediately after acquisition.

Note that no adjustment has been made to back date and reflect the full year impact of acquisitions in Spain and South Korea (which were both asset purchases), or the United Kingdom due to changes in the nature of the businesses once acquired by Pepper. More recently, Pepper signed an agreement in December 2014 to acquire a 12% interest in PrimeCredit (Hong Kong and China) as part of a consortium with CTS and York Capital Management. The acquisition, which completed on 6 May 2015, has been reflected in the Pro Forma Forecast Financial Information for the full year as Pepper has been able to obtain reliable Financial Information from the date of agreement (December 2014) for the first four months of CY2015.

Figure 66 summarises the inclusions and exclusions in the Statutory and Pro Forma Historical Financial Information by geography.

Figure 66: Pro Forma basis of preparation for international acquisitions and corporate reorganisation



1. *Agreement to acquire Ireland in June 2012 with acquisition by Pepper Europe completed in September 2012. Pro Forma Historical Financial Information includes results from January to June 2013, prior to acquisition of Pepper Europe by PAPL with no adjustment made in CY2012.*
2. *Spain was included in PAPL results from July 2013. Pro Forma Historical Financial Information reflects the results of Spain from the point of acquisition by Pepper Europe (March 2013). No adjustment made to reflect the full year impact in CY2013 as the nature of the business has changed since acquisition.*
3. *Oakwood, the United Kingdom-based platform, was acquired by PAPL in September 2013 and included in statutory and Pro Forma results from that date. No adjustment made to reflect the full year impact in CY2013 as the nature of the business has changed since the acquisition.*
4. *Evergreen Savings Bank, the South Korean mutual savings bank, was acquired in October 2013 and included in Financial Information from the date of acquisition. No adjustment made to reflect the full year impact in CY2013 as the nature of the business has changed since acquisition.*
5. *PrimeCredit was acquired in May 2015. Pro Forma Forecast Financial Information reflects the full year contribution of the business.*

3.3.2 Preparation of the historical Financial Information

The statutory historical Financial Information has been extracted from the general purpose statutory historical consolidated financial statements of Pepper for CY2012, CY2013 and CY2014 that were audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu issued unqualified audit opinions in respect of these periods. Investors should note that the statutory historical Financial Information was prepared on a going concern basis as set out in the Directors' report for each period.

The Pro Forma historical Financial Information has been prepared for the purpose of this Prospectus and has been derived from the statutory historical Financial Information to illustrate the net income, assets, liabilities and cash flows to Pepper de-consolidated for the limited-recourse Funding Vehicles (discussed previously in Section 3.1) and adjusted for certain significant transactions, one-off items and Pro Forma adjustments.

Refer to Section 3.4 for a reconciliation between the Statutory Historical Income Statement and the Pro Forma Historical Income Statement. Refer to Section 3.7 for reconciliation between the statutory historical net cash flow before financing and tax to the historical Pro Forma net cash flow before corporate financing and tax. Pepper's activities are presented in this Prospectus as comprising three segments, namely Australia and New Zealand (**Australia and New Zealand Division**), International (**International Division**) and Corporate Division. These segments represent the manner in which Pepper intends to report in future periods in accordance with AASB 8 *Operating Segments*. Pepper has not been required to report segment information in its historical audited financial statements.

The Statutory Historical Balance Sheet as at 31 December 2014 reflects the consolidation of Pepper and all controlled entities inclusive of limited-recourse Funding Vehicles. In accordance with AASB 101 *Presentation of Financial Statements*, Pepper presents its balance sheet in the order of liquidity of its assets and liabilities. This presentation is consistent with industry practice as this information is considered more reliable and relevant for investors rather than separating current and non-current assets and liabilities.

Sections 2.7.2.1 and 2.7.2.3 set out a detailed disclosure in respect of the key asset Funding Vehicles of Pepper. The table in Section 8.5.2 presents the maturities of financial liabilities based on remaining contractual maturity. For the facilities attached to the Term Securitisation Funding Vehicles, given the pass through nature of the securities, contractual maturity is presented based on the expected repayment profile of the underlying assets of the relevant Funding Vehicles, which has been derived using prepayment assumptions based on actual experience.

The Pro Forma Historical Balance Sheet is based on the Statutory Historical Balance Sheet adjusted to de-consolidate the limited-recourse Funding Vehicles (as discussed in Section 3.3.1) consistent with the Pro Forma Historical Income Statements. In addition, the Pro Forma Historical Balance Sheet includes certain other Pro Forma adjustments to:

- reflect the impact of the Offer including Offer costs offset against equity;
- reflect the operating and capital structures that will be in place following Completion of the Offer as if they had occurred or were in place as at 31 December 2014; and
- include a full years contribution from PrimeCredit. The investment in PrimeCredit was acquired in May 2015, although an escrowed cash deposit was held on the balance sheet at 31 December 2014.

The Pro Forma Historical Balance Sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of Pepper's view on its future financial position. Investors should note that past results are not a guarantee of future performance.

3.3.3 Preparation of the Forecast Financial Information

The Forecast Financial Information has been prepared by the Directors solely for inclusion in this Prospectus, based on an assessment of current economic and operating conditions and the Directors' best estimate of general and specific assumptions regarding future actions and events as set out in Section 3.9.

The Directors have prepared the Forecast Financial Information with due care and attention, and consider all best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on Forecast Financial Information.

This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or negative effect on Pepper's actual financial performance or financial position.

Investors are advised to review the Directors' best estimate of general and specific assumptions set out in Section 3.9, in conjunction with the notes to the Financial Information, the sensitivity analysis set out in Section 3.11, the risk factors set out in Section 4, the Investigating Accountant's Report set out in Section 7 and other information set out in this Prospectus.

The Forecast Financial Information has been presented on both a statutory and Pro Forma basis:

- The Statutory Forecast Income Statement and Statutory Forecast Cash Flows of Pepper for CY2015 reflect the financial performance and cash flows that the Directors expect Pepper to report for the year ending 31 December 2015. These are based on the actual results for the two month period to 28 February 2015 and the forecast results for the remaining 10 months to 31 December 2015. The statutory forecasts for CY2015 assume Completion of the Offer will occur on 5 August 2015, and hence reflect five months associated with Pepper being a publicly listed entity;
- The Pro Forma Forecast Income Statement and Pro Forma Forecast Cash Flows of Pepper for CY2015 are based on the Statutory Forecast Income Statement and Statutory Forecast Cash Flows adjusted for the de-consolidation of the limited-recourse Funding Vehicles, a full year contribution from PrimeCredit, a full year of costs associated with Pepper being a publicly listed entity and the exclusion of one-off costs of the Offer and certain significant items. Refer to Section 3.4 for a reconciliation between the Statutory Forecast Income Statement and the Pro Forma Forecast Income Statement and Section 3.7 for a reconciliation between the Statutory Forecast Cash Flows and the Pro Forma Forecast Cash Flows;
- The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation of the Pro Forma Historical Financial Information; and

- As at the date of this Prospectus, based on unaudited monthly management accounts for the year to date period, Pepper management currently anticipates that circa 35% of CY2015 forecast Pro Forma Adjusted NPAT will be realised in the first half of CY2015, which would be generally consistent with expectations when the budget was set. In CY2015, pre-tax profit is expected to be more weighted towards the second half than normal, primarily due to:
  - **Pepper South Korea:** expected ramp up in monthly lending originations from approximately $48 million in the first half of CY2015 to approximately $88 million in the second half of CY2015, as well as improving NIM as a greater proportion of the product mix is comprised of higher-margin personal loans; and
  - **Pepper Ireland:** performance and advisory fees are expected to be earned in the second half of CY2015.
- Beyond CY2015, Management does not expect pre-tax profit to be as disproportionately weighted towards the second half of the year.

The Directors have no intention or obligation to update or revise the Forecast Financial Information or other forward-looking statements following the issue of this Prospectus, or to publish prospective Financial Information in the future, regardless of whether new information, future events or other factors affect the information contained in this Prospectus, except where required by law.

3.3.4 Explanation of certain non-IFRS and other financial measures

Pepper uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standard nor IFRS (**non-IFRS financial measures**). These non-IFRS financial measures do not have a prescribed definition under AAS or IFRS and therefore may not be directly comparable to similarly titled measures presented by other entities, nor should they be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS. Although Pepper believes these non-IFRS financial measures provide useful information to users in measuring the financial performance and condition of the business, investors are cautioned not to place undue reliance on any non-IFRS financial measures included in the Prospectus.

In the disclosures in this Prospectus, Pepper uses the following non-IFRS financial measures.

- **Acquisition Amortisation:** Non-cash amortisation relating to finite life intangible assets (including customer relationships and servicing rights, but excluding any IT or software assets recognised) following acquisitions undertaken by Pepper.
- **Adjusted NPAT:** Net profit after tax adding back Acquisition Amortisation.
- **Working capital:** Third-party customer and Funding Vehicle receivables, trade payables and accruals, unearned income and provisions.
- **Capital expenditure:** Includes investment in property and equipment, as well as software and licence assets.
- **Equity investments in limited-recourse Funding Vehicles:** Reflects the level of investment in the capital structure of Funding Vehicles that hold originated, acquired or third-party serviced portfolios.
- **Net lending activities:** Predominantly reflects lending activities in South Korea and Spain and reflects net cash flows from loans written, deposits received and loan sales.
- **Net investing activity in Government securities (South Korea):** Reflects the net cash flows from investing and liquidating of Government securities in South Korea.
- **AUM:** Total AUM comprises the sum of Lending AUM and Servicing AUM.
- **Lending AUM:** The total value of loan assets originated or acquired by Pepper and held either (i) on-balance sheet (mainly in South Korea), or (ii) in limited-recourse Funding Vehicles where Pepper holds an Equity Note interest and/or an interest in the residual income unit. This excludes assets held by PrimeCredit as these are not consolidated in Pepper's financial statements.
- **Servicing AUM:** The total value of assets where Pepper has servicing and/or Funding Vehicle management contracts in place with third parties under which it earns fee income. This excludes assets held in Pepper-controlled limited-recourse Funding Vehicles and includes portfolios of loans acquired by Pepper and sold to third parties.

3.4 Historical and Forecast Statutory and Pro Forma Income Statements

The tables below set out the Statutory and Pro Forma Income Statements of Pepper for the historical periods CY2012, CY2013 and CY2014 and the forecast year CY2015.

Table 30 provides a summary of Pepper's Pro Forma Historical Income Statements for CY2012, CY2013 and CY2014 and the Pro Forma Forecast Income Statement for CY2015.

Table 30: Historical and forecast Pro Forma income statements

		Pro forma historical[1]			Pro Forma forecast
$ millions	**Note**	**CY2012**	**CY2013**	**CY2014**	**CY2015**
Income					
Lending income	*2*	48.8	61.0	83.6	110.0
Loan origination fees	*3*	3.2	6.4	16.6	21.5
Servicing and loan administration fees	*4*	22.9	70.8	114.3	152.5
Advisory and other income	*5*	7.1	22.0	20.4	20.0
Total income		**82.0**	**160.2**	**234.9**	**304.0**
Share of profit from associate	*6*	**–**	**–**	**–**	**5.0**
Expenses					
Commission and direct marketing expenses	*7*	(2.4)	(4.7)	(13.7)	(27.0)
Employee compensation and benefits expenses		(28.2)	(70.0)	(112.5)	(159.4)
Occupancy expenses		(1.9)	(5.8)	(9.4)	(12.9)
Professional expenses	*8*	(3.7)	(10.8)	(12.0)	(10.2)
Depreciation and amortisation expenses	*9*	(1.2)	(2.7)	(6.3)	(8.8)
General and administration expenses		(9.4)	(15.3)	(30.8)	(32.1)
Corporate interest expense	*10*	(1.9)	(1.9)	(1.9)	(1.9)
Total expenses		**(48.7)**	**(111.2)**	**(186.6)**	**(252.3)**
Profit before tax		**33.3**	**49.0**	**48.3**	**56.7**
Income tax expense	*11*	(11.1)	(15.2)	(14.1)	(13.2)
NPAT		**22.2**	**33.8**	**34.2**	**43.5**
Non-controlling equity interests		–	0.2	0.1	0.1
NPAT attributable to owners of the Company		**22.2**	**34.0**	**34.3**	**43.6**
Acquisition Amortisation	*12*	–	0.2	0.8	3.4
Adjusted NPAT		**22.2**	**34.2**	**35.1**	**47.0**

Notes:

1. *Reconciliation from Statutory Historical and Forecast Income Statements to Pro Forma Historical and Forecast Income Statements can be found in Table 32.*
2. ***Lending income** primarily consists of Pepper's share of net income distributed from limited-recourse Funding Vehicles (being Funding Vehicle income net of expenses) where Pepper holds residual income units, interest revenue generated from Pepper's investments in Equity Notes within Pepper-originated, Pepper-acquired and third-party Funding Vehicles and net interest revenue from loans held on Pepper's balance sheet (mainly in South Korea, shown net of funding costs). Lending income also includes the net income generated from Whole Loan Sale transactions and other forms of loan sale transactions. Lending income is presented net of on-balance sheet lending losses and securitisation deal cost amortisation.*
3. ***Loan origination fees** consist of settlement fees, post-settlement fees and mortgage risk fees generated on new loan originations. Mortgage risk fees are charged to certain borrowers on settlement to cover for risk associated with the origination of uninsured mortgage loans. Mortgage risk fees are received upfront on origination of the loan from the borrower; however, are recognised in the income statement over the life of the loan using the effective interest rate method.*

4. ***Servicing and loan administration fees*** *include contracted servicing and management fees on Pepper-originated or acquired Funding Vehicles and servicing fees received from third-party Funding Vehicles where Pepper maintains servicing contracts. Servicing fees also include performance fees, which are earned where third-party Funding Vehicles that Pepper services meet performance benchmarks (e.g. arrears levels or cash collection levels) and/or portfolio internal rate of return thresholds, and are therefore more variable over time than base servicing fees.*
5. ***Advisory and other income*** *consists of advisory income from Pepper Property Group, realised foreign currency exchange gains, PrimeCredit management services fees (CY2015) and other income items of a less material nature.*
6. ***Share of profit from associate*** *relates to Pepper's share of the forecast NPAT of PrimeCredit. Pepper owns a 12% equity interest in the PrimeCredit business with the transaction completed on 6 May 2015. In CY2015 a Pro Forma adjustment is applied to reflect a full year of profit after tax and amortisation of intangibles.*
7. ***Commission and direct marketing expenses*** *include trail commissions paid, amortisation of upfront commissions (commissions are paid to the broker upfront upon origination of the loan; however, are recognised in the income statement over the life of the loan using the effective interest rate method) and specific direct marketing costs.*
8. ***Professional expenses*** *include transaction expenses, as well as audit and other accounting expenses, consulting expenses and legal expenses incurred in the ordinary course of business or for other purposes.*
9. ***Depreciation and amortisation expenses*** *consist of depreciation of Company fixed assets and amortisation of intangible assets, which includes the amortisation of finite life intangible mortgage servicing rights recognised upon acquisition of Pepper United Kingdom (specifically, the Oakwood servicing platform in October 2013).*
10. ***Corporate interest expense*** *is the interest expense associated with borrowings by Pepper at the parent company level under Corporate Debt Facilities guaranteed by certain members of the Group. It does not reflect the cost of borrowing in limited-recourse Funding Vehicles to fund loan originations/acquisitions or the interest paid on deposits at Pepper Savings Bank to fund originations in South Korea. The CY2015 Pro Forma interest expense has been adjusted to assume that the debt pay down completed as part of the Initial Public Offering was completed as at 1 January 2012.*
11. ***Income tax expense*** *reflects the effective corporate tax rate for each geography, applied to the Pro Forma profit before tax.*
12. ***Acquisition Amortisation*** *is the amortisation of finite life intangible assets including customer relationships and servicing rights. In CY2015, Acquisition Amortisation includes $2.5 million assumed within the share of profit from associate, representing Pepper's 12% share of PrimeCredit's forecast amortisation expense.*

Table 31 provides a summary of Pepper's Statutory Historical Income Statements for CY2012, CY2013 and CY2014 and the Statutory Forecast Income Statement for CY2015.

Table 31: Historical and Statutory Forecast Income Statements

		Historical			Forecast
$ millions	**Note**	**CY2012**	**CY2013**	**CY2014**	**CY2015**
Revenue	*1*	**329.1**	**329.9**	**423.4**	**509.5**
Gain on business combination		–	0.1	–	–
Share of profit from associate		–	–	–	0.8
Employee compensation and benefits expenses		(26.5)	(58.4)	(111.0)	(190.3)
Depreciation and amortisation expenses		(1.2)	(2.6)	(5.3)	(8.8)
Borrowing costs	*2*	(236.8)	(181.6)	(189.9)	(210.3)
Other expenses from operations		(28.8)	(44.3)	(72.5)	(89.2)
Profit before tax		**35.8**	**43.1**	**44.7**	**11.7**
Tax expense		(11.2)	(14.5)	(6.7)	(10.4)
NPAT		**24.6**	**28.6**	**38.0**	**1.3**
Non-controlling equity interests		–	0.2	0.1	0.1
NPAT attributable to the owners of the Company		**24.6**	**28.8**	**38.1**	**1.4**

Notes:

1. ***Revenue*** *comprises the aggregate income of the consolidated Group under the statutory presentation and includes gross interest income on loans (including loans held within the limited-recourse Funding Vehicles), servicing fees from third parties and other income from third parties. On a statutory basis, the revenue is presented on a gross basis with funding costs presented separately within expenses.*
2. ***Borrowing costs*** *on a statutory basis consist of interest paid on corporate debt borrowed and guaranteed by Pepper as well as interest paid by Pepper-controlled limited-recourse Funding Vehicles to third-party noteholders and lenders. On a statutory consolidated basis, this excludes the interest paid to Pepper on Funding Vehicle Equity Notes and units held in the PIM Funds.*

3.4.1 Pro Forma adjustments to the Statutory Historical and Forecast Income Statements

Table 32 sets out a reconciliation of the statutory historical revenue and NPAT to the Pro Forma historical revenue and NPAT for CY2012, CY2013 and CY2014 and a reconciliation of the statutory forecast total income and NPAT to the Pro Forma forecast total income and NPAT for CY2015.

Table 32: Reconciliation of Historical and Statutory Forecast consolidated Income Statements and Historical and Forecast Pro Forma Income Statements

		Historical			Forecast
$ millions	**Note**	**CY2012**	**CY2013**	**CY2014**	**CY2015**
Total Income					
Statutory revenue (including limited-recourse Funding Vehicles)	*1*	**329.1**	**329.9**	**423.4**	**509.5**
Adjustments to exclude the limited-recourse Funding Vehicles					
De-consolidation of income recorded by the limited-recourse Funding Vehicles	*2*	(311.7)	(260.0)	(272.8)	(316.0)
Recognition of coupon interest and distribution income received from the Funding Vehicles	*3*	51.0	57.4	64.4	93.9
Recognition of servicing and administration income received from the Funding Vehicles	*4*	17.2	19.4	20.9	21.8
Subtotal: Adjustments to exclude the limited-recourse Funding Vehicles		(243.5)	(183.2)	(187.5)	(200.3)
Adjusted total income (excluding limited-recourse Funding Vehicles)		**85.6**	**146.7**	**235.9**	**309.2**
Other adjustments					
Full year recognition of acquired operations	*5*	–	13.9	–	–
Reporting reclassifications	*6*	(3.6)	(0.4)	(1.0)	(6.6)
PrimeCredit full year recognition (management fee)	*7*	–	–	–	1.4
Pro forma total income		**82.0**	**160.2**	**234.9**	**304.0**
NPAT					
Statutory NPAT		**24.6**	**28.6**	**38.0**	**1.3**
Full year recognition of acquired operations	*5*	–	3.7	–	–
Net finance costs	*8*	(0.3)	2.8	4.8	5.4
Business acquisition transaction costs	*9*	0.3	2.2	–	3.0
New executive management LTI Scheme structure	*10*	(1.4)	(1.7)	(0.1)	(1.2)
Management LTI Scheme structure acceleration	*10*	–	–	–	32.2
Listed public company costs	*11*	(1.1)	(1.1)	(1.1)	(0.5)
PrimeCredit full year recognition (management fee)	*7*	–	–	–	1.4
PrimeCredit full year recognition (equity investment)	*7*	–	–	–	4.1
Offer transaction costs	*12*	–	–	–	0.6
Income tax effect of adjustments and effective rate	*13*	0.1	(0.7)	(7.4)	(2.8)
Pro forma NPAT		**22.2**	**33.8**	**34.2**	**43.5**

Notes:

1. *See note 1 to Table 31.*
2. ***De-consolidation of income recorded by the limited-recourse Funding Vehicles** represents customer interest income, customer fees and interest earned from cash held at financial institutions by the limited-recourse Funding Vehicles. On a statutory consolidated basis, income recognised by the Funding Vehicles controlled by Pepper is recognised within the consolidated group. On the Pro Forma basis, Pepper accounts for the limited-recourse Funding Vehicles akin to third parties and in doing so Pepper does not recognise income of the limited-recourse Funding Vehicles (as discussed in Section 3.3.1).*
3. ***Recognition of coupon interest and distribution income received from the limited-recourse Funding Vehicles** represents the recognition on a Pro Forma basis of income received from "first loss" capital and residual income units held by Pepper in the limited-recourse Funding Vehicles. On a statutory consolidated basis, the consolidation process eliminates these transactions between Pepper and the limited-recourse Funding Vehicles (as discussed in Section 3.3.1).*
4. ***Recognition of servicing and administration income received from the Funding Vehicles** represents the recognition on a Pro Forma basis of income received by Pepper as contracted service and management provider to the limited-recourse Funding Vehicles. On a statutory consolidated basis, the consolidation process eliminates these transactions between Pepper and the limited-recourse Funding Vehicles (as discussed in Section 3.3.1).*
5. ***Full year recognition of acquired operations** is an adjustment to reflect contributions to total income from PAPL's acquisition of Pepper Europe (as discussed in Section 3.3.1), as if the transaction had occurred on 1 January 2013.*
6. ***Reporting reclassifications** reflect the net adjustment for certain items presented differently for statutory and Pro Forma disclosure purposes between income and expenses. Deposit interest and loan losses are recorded within expenses for statutory disclosure and have been presented within Income (lending income) on a Pro Forma basis. Broker commissions are recorded within income for statutory disclosure and have been presented within expenses (commission and direct marketing expenses) on a Pro Forma basis. The Directors believe the adjustments are required to reflect the most appropriate presentation of the Pro Forma income statement. Deposit interest and loan losses are directly associated with the recognition of income and are presented accordingly on a Pro Forma basis. Broker commissions (inclusive of upfront broker commissions amortised over the anticipated life of the loan using the effective interest rate method) are reflective of the various sales distribution channels utilised by Pepper and more appropriately presented as an expense on a Pro Forma basis.*
7. ***PrimeCredit full year recognition (management fee)** is an adjustment that arises as a result of the completion of the 12% equity investment completed on 6 May 2015. The full year impact of the management fee income that Pepper Australia receives from PrimeCredit is included in the Pro Forma forecast revenue and NPAT. In addition, **PrimeCredit full year recognition (equity investment)** is Pepper's share of profit from the associate on a Pro Forma basis including the full year impact of the earnings of PrimeCredit ($2.0 million) and excluding one-off transaction costs incurred by PrimeCredit (12% share equates to $2.6 million).*
8. ***Net finance costs** are adjusted to reflect the Pro Forma interest expense on the Corporate Debt Facilities, assuming that debt pay down as part of the Initial Public Offering was completed as at 1 January 2012.*
9. ***Business acquisition transaction costs** reflect one-off acquisition costs pertaining to historical business acquisitions (such as the Mutual Savings Bank in South Korea in 2013), and more recently in relation to the due diligence and related costs in connection with Pepper's failed acquisition of GE Capital's Australia and New Zealand consumer finance business. The latter included vendor due diligence on Pepper's business and has been adjusted due to the highly unusual nature of the transaction (which did not proceed).*
10. ***New executive management LTI Scheme structure** is an adjustment for the proposed executive management incentive structure for Pepper as a publicly listed business (assumed to be $2.0 million in CY2015), overlaid across the historical period. **Management LTI Scheme structure acceleration adjustment** reflects a "top-up" above actual historical costs referable to the relevant years under existing pre-Offer incentive structures. The $32.2 million adjustment for existing management LTI Scheme structure acceleration relates to acceleration of future years' entitlements under existing pre-Offer incentive structures (which structures will cease to apply following the Offer) and the Employee Gift Offer (as discussed in Section 5.3.4). This is a non-cash expense.*
11. ***Listed public company costs** is an adjustment made in CY2015 to include Pepper's estimate of the incremental annual costs that it will incur as a listed public company. These incremental costs include Director's remuneration, listing fees, share registry fees, directors' and officers' insurance premiums, annual general meeting costs, annual report costs and media and investor relations costs.*
12. ***Offer transaction costs** reflect the amount forecast to be expensed in CY2015 and represent the portion of Offer transaction costs (advisers, Joint Lead Managers, accounting and legal fees) attributable to the sell-down of Existing Shares by Existing Shareholders. Note that $14.8 million of Initial Public Offering transaction costs (relating to the primary issue) are netted off against issued capital.*
13. ***Income tax effect of adjustments and effective rate** reflects the net tax effect of the Pro Forma adjustments as well as adjusting the historical tax expense to reflect the effective corporate tax rate for each geography.*

3.4.2 Key financial and operating metrics

Table 33 provides a summary of Pepper's key historical financial and operating metrics for CY2012, CY2013 and CY2014 on a Pro Forma basis, and forecast financial and operating metrics for CY2015 on a Pro Forma basis.

Table 33: Key financial and operating metrics

		Pro forma historical			Pro Forma forecast
$ millions	**Note**	**CY2012**	**CY2013**	**CY2014**	**CY2015**
AUM	*1*	3,953.6	13,718.4	28,623.2	41,282.3
Servicing AUM	*1*	360.2	10,085.2	24,440.2	35,934.5
Lending AUM	*1*	3,593.4	3,633.2	4,183.0	5,347.8
Loan originations		419.6	813.8	1,650.3	3,059.5
Lending income growth			24.9%	37.0%	31.6%
Servicing and loan administration fee growth			209.7%	61.4%	33.4%
Total income growth			95.4%	46.6%	29.4%
NPAT growth			52.0%	1.3%	27.3%
Lending income as % of average Lending AUM	*2*	1.21%	1.69%	2.14%	2.31%
Full-time employees		219	758	1,066	1,434

Notes:

1. *AUM stated is as at 31 December in the particular year.*
2. *Calculated as lending income for the period divided by the average of the beginning and ending AUM for the period.*

3.5 Segment information

Pepper intends to report Financial Information in future periods by three operating segments, namely Australia and New Zealand Division, International Division and Corporate Division in accordance with AASB 8 *Operating Segments*. The operating segments are described below.

3.5.1 Australia and New Zealand Division

The Australia and New Zealand Division includes the revenues and direct expenses associated with the loan origination, servicing and other operations conducted by Pepper in Australia and New Zealand. In Australia, this comprises residential prime and non-conforming mortgage lending, auto and equipment finance lending, servicing of Pepper-controlled limited-recourse Funding Vehicles and third-party Funding Vehicles, property advisory services and investment management services for third-party funds. The Pepper Asset Finance business (which provides auto and equipment loans) is in the start-up phase and is expected to approach breakeven performance on a monthly pre-tax profit basis by the end of CY2015 as the business continues to grow scale. In New Zealand, Pepper does not originate loans but has a minority interest in portfolios that were acquired from GE Capital in 2011 which are currently in run-off.

The Australia and New Zealand Division also recognises income generated under a services agreement with PrimeCredit under which Pepper provides certain strategic and treasury-related advisory services, and also oversight of certain operational functions and transitional arrangements. This income is reported as part of advisory and other income from CY2015.

3.5.2 International Division

The International Division includes the revenues and direct expenses associated with lending and servicing operations conducted by Pepper outside Australia and New Zealand. Pepper presently derives revenue and profits in Ireland, the United Kingdom, Spain, South Korea, Hong Kong and China. The products and services offered currently include residential mortgage loans, point-of-sale finance and personal loans and the servicing and management of Pepper-controlled and third-party Funding Vehicles. Pepper South Korea is forecast to achieve profitability on a pre-tax profit basis in CY2015 as monthly loan originations reach an estimated approximately $88 million in the second half of CY2015. Other businesses, namely loan origination activities in the United Kingdom and Spain, are currently in the start-up phase and incurring losses in the historical periods and Forecast Period as the businesses have not yet reached a scale sufficient to generate profits.

Profits from Pepper's 12.0% equity interest in PrimeCredit are reported as a share of associate income within the International Division.

3.5.3 Corporate Division

The Corporate Division represents group executives (central executive and the principal investments team) and costs and group support functions not specifically aligned to business operations in the Australia and New Zealand Division or International Division (e.g. Finance, Treasury, Risk, HR, Legal and IT). Interest costs associated with Pepper's Corporate Debt Facilities are also presented as part of the Corporate Division together with realised foreign exchange gains or losses.

Table 34 contains a summary of Pepper's Pro Forma Historical Income Statements by segment for CY2012, CY2013, CY2014 and Pro Forma Forecast Income Statement by segment for CY2015.

Table 34: Pro Forma historical and forecast income statements by segment for CY2012 to CY2015

		Pro forma historical			Pro forma forecast	CAGR (%)	
$ millions	**Note**	**CY2012**	**CY2013**	**CY2014**	**CY2015**	**CY2012 – CY2014**	**CY2014 – CY2015**
Australia and New Zealand Division							
Lending income		48.8	58.5	60.3	72.5	11.1%	20.3%
Loan origination fees		3.2	6.4	16.1	21.5	123.8%	33.1%
Servicing and loan administration fees	*1*	22.9	30.0	35.9	33.2	25.2%	(7.4%)
Advisory and other income	*2*	7.0	15.2	12.4	17.2	33.2%	39.2%
Total income		**81.9**	**110.1**	**124.7**	**144.4**	**23.4%**	**15.9%**
Commission and direct marketing expenses	*3*	(2.4)	(4.7)	(10.8)	(21.4)	109.8%	98.1%
Employee compensation and benefits expenses		(21.3)	(32.3)	(38.5)	(51.2)	34.3%	33.0%
Occupancy expenses		(1.9)	(2.5)	(3.1)	(3.6)	28.6%	16.4%
Professional expenses		(3.7)	(4.5)	(3.0)	(1.9)	(10.1%)	(36.5)%
Depreciation and amortisation expenses	*4*	(1.2)	(1.9)	(2.3)	(2.8)	41.2%	23.2%
General and administration expenses		(8.3)	(8.4)	(9.9)	(14.6)	9.0%	47.4%
Profit before tax (Australia and New Zealand Division)		**43.1**	**55.8**	**57.1**	**48.9**	**15.1%**	**(14.3%)**
International Division							
Lending income	*5*	–	2.5	23.3	37.5	n.m.	60.6%
Loan origination fees	*6*	–	–	0.5	–	n.m.	(97.0%)
Servicing and loan administration fees	*7*	–	40.8	78.4	119.3	n.m.	52.1%
Advisory and other income	*8*	–	2.9	6.8	2.5	n.m.	(62.5%)
Total income		**–**	**46.2**	**109.0**	**159.3**	**n.m.**	**46.1%**
Share of profit from associate		–	–	–	5.0	n.m.	nm
Commission and direct marketing expenses	*9*	–	–	(2.9)	(5.7)	n.m.	92.6%
Employee compensation and benefits expenses		–	(26.5)	(58.5)	(87.9)	n.m.	50.1%
Occupancy expenses		–	(3.3)	(6.3)	(9.3)	n.m.	46.7%
Professional expenses		–	(4.8)	(7.7)	(6.8)	n.m.	(11.6%)
Depreciation and amortisation expenses	*10*	–	(0.8)	(4.0)	(5.9)	n.m.	50.3%
General and administration expenses		–	(5.7)	(18.3)	(16.1)	n.m.	(12.0%)
Profit before tax (International Division)		**–**	**5.1**	**11.3**	**32.6**	**n.m.**	**189.6%**
Corporate Division	*11*	**(9.8)**	**(11.9)**	**(20.1)**	**(24.8)**	**43.0%**	**24.1%**
Profit before tax (total)		**33.3**	**49.0**	**48.3**	**56.7**	**20.5%**	**17.3%**

Notes:

1. ***Australia and New Zealand Division servicing and loan administration fees*** *include fees from Pepper-controlled limited-recourse Funding Vehicles and third-party Funding Vehicles where Pepper holds servicing contracts in Australia and New Zealand. Servicing fees also include a component of performance fees, which Pepper earns for meeting agreed service and return levels.*
2. ***Australia and New Zealand Division advisory and other income*** *primarily includes advisory fees from Pepper Property Group and management fees from PrimeCredit in CY2015.*
3. ***Australia and New Zealand Division commission and direct marketing expenses*** *primarily include broker commission payments on origination of new lending in Australia, trailing commission payments to brokers in connection with the Australia and New Zealand home lending portfolio, together with costs in connection with marketing activities.*
4. ***Australia and New Zealand Division depreciation and amortisation expenses*** *primarily include depreciation of fixed assets, as well as amortisation of intangible software assets.*
5. ***International Division lending income*** *comprises the aggregate of income from Funding Vehicles (net of funding costs and loan loss provisions), gross income from investments in third-party notes and income from South Korean residential mortgage and personal loans (net of funding costs and loan losses). In CY2013, lending income was predominantly income from Equity Note investments held in third-party Funding Vehicles that Pepper services under contract in Ireland and in which it has elected to make an investment in order to demonstrate alignment with the relevant loan portfolio acquirer. CY2014 and CY2015 include a material contribution from lending income from South Korean loan originations.*
6. ***International Division loan origination fees*** *are fees generated in connection with loan origination activities.*
7. ***International Division servicing and loan administration fees*** *is income generated under servicing and Funding Vehicle management contracts predominantly in the United Kingdom and Ireland.*
8. ***International Division advisory and other income*** *is predominantly related to Pepper Property Group's presence in the United Kingdom and loan portfolio due diligence fees in Ireland. In CY2014, advisory and other income also included the gain on disposal of asset sales in South Korea.*
9. ***International Division commission and direct marketing expenses*** *are predominantly related to commissions paid for loans originated in South Korea by a team of DSRs.*
10. ***International Division depreciation and amortisation expenses*** *are primarily depreciation of fixed assets, amortisation of software and amortisation of finite life intangible mortgage servicing rights.*
11. ***Corporate Division*** *includes overhead expenses not directly related to segments, net realised foreign exchange gains/losses and interest expense from Pepper's Corporate Debt Facilities. The Pro Forma expense is adjusted to take account of Pepper using the proceeds of Offer to pay down its corporate debt, and assumes that debt was paid down as at 1 January 2012.*

Table 35 below provides a summary of Pepper's key historical financial metrics for CY2012, CY2013 and CY2014 on a Pro Forma basis, and forecast financial metrics for CY2015 on a Pro Forma basis for the Australia and New Zealand Division and International Division.

Table 35: Historical and forecast key segment metrics for CY2012 to CY2015

	Historical			Forecast	CAGR (%)	
$ millions	**CY2012**	**CY2013**	**CY2014**	**CY2015**	**CY2012 – CY2014**	**CY2014 – CY2015**
Australia and New Zealand Division						
AUM	**3,953.6**	**4,468.6**	**4,917.2**	**5,672.4**	11.5%	15.4%
Servicing AUM	360.2	923.7	932.4	1,215.1	60.9%	30.3%
Lending AUM	3,593.4	3,544.9	3,984.8	4,457.3	5.3%	11.9%
Lending originations	419.6	813.8	1,452.5	1,989.7	86.1%	37.0%
Full-time employees	219	265	349	425	26.2%	21.8%
International Division						
AUM	–	**9,249.8**	**23,706.0**	**35,609.9**	n.m.	50.2%
Servicing AUM	–	9,161.5	23,507.8	34,719.4	n.m.	47.7%
Lending AUM	–	88.3	198.2	890.5	n.m.	349.3%
Lending originations	–	–	197.8	1,069.8	n.m.	440.9%
Full-time employees	–	493	717	1,009	n.m.	40.7%

3.6 Pro Forma historical balance sheet

The Statutory Historical Balance Sheet as at 31 December 2014 reflects the consolidation of Pepper and all controlled entities inclusive of limited-recourse Funding Vehicles.

The Pro Forma historical balance sheet as at 31 December 2014 is based on the Statutory Historical Balance Sheet adjusted to de-consolidate the limited-recourse Warehouse Facility Funding Vehicles, Term Securitisation Funding Vehicles and PIM Funds (as discussed in Section 3.3.1) in addition to certain other Pro Forma adjustments, including the impact of the Offer. These other adjustments reflect the impact of the operating and capital structures that will be in place following Completion of the Offer as if they had occurred or were in place as at 31 December 2014.

In conjunction with the Offer, Pepper will issue new equity (refer to Section 6). Proceeds from the issue of New Shares under the Offer will be used to:

- raise capital to pay down Pepper Corporate Debt Facilities and strengthen the Company's balance sheet;
- provide funding flexibility to support future growth, including by acquisition; and
- fund transaction advisory fees, costs and expenses arising in connection with the Offer.

The Pro Forma Historical Balance Sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of Pepper's view on its future financial position.

Table 36: Pro Forma historical balance sheet as at 31 December 2014

$ millions	Note	Statutory (including limited-recourse Funding Vehicles)	Impact of excluding limited-recourse Funding Vehicles	Pro Forma (excluding limited-recourse Funding Vehicles)[1]	Impact of the Offer and PrimeCredit acquisition[2]	Pro Forma
Assets						
Cash and cash equivalents	*3*	462.4	(233.8)	228.6	(69.0)	159.6
Securities	*4*	70.9	–	70.9	–	70.9
Derivative financial assets		59.8	(59.8)	–	–	–
Receivables	*5*	164.0	(77.0)	87.0	–	87.0
Other assets	*6*	8.8	1.9	10.7	–	10.7
Loans and advances	*7*	3,963.7	(3,786.9)	176.8	–	176.8
Deferred tax assets		7.1	–	7.1	4.4	11.5
Investments	*8*	55.1	69.4	124.5	80.8	205.3
Property, plant and equipment		9.1	–	9.1	–	9.1
Goodwill		23.8	–	23.8	–	23.8
Intangible assets	*9*	43.0	–	43.0	–	43.0
Total assets		**4,867.7**	**(4,086.2)**	**781.5**	**16.2**	**797.7**
Liabilities						
Deposits	*10*	332.3	–	332.3	–	332.3
Trade and other payables	*11*	30.9	(0.9)	30.0	–	30.0
Current tax liabilities		7.1	–	7.1	–	7.1
Borrowings	*12*	4,182.0	(4,081.5)	100.5	(100.0)	0.5
Other liabilities	*13*	45.8	(4.2)	41.6	–	41.6
Provisions		19.8	–	19.8	–	19.8
Deferred tax liabilities		2.3	–	2.3	–	2.3
Total liabilities		**4,620.2**	**(4,086.6)**	**533.6**	**(100.0)**	**433.6**
Net assets		**247.5**	**0.4**	**247.9**	**116.2**	**364.1**
Equity						
Issued capital		143.5	–	143.5	147.9	291.4
Reserves		(12.2)	0.4	(11.8)	1.2	(10.6)
Retained earnings		116.9	–	116.9	(32.9)	84.0
Total equity excl. non-controlling interests		**248.2**	**0.4**	**248.6**	**116.2**	**364.8**
Non-controlling interests		(0.7)	–	(0.7)	–	(0.7)
Total equity	*14*	**247.5**	**0.4**	**247.9**	**116.2**	**364.1**

Notes:

1. *Pro Forma balance sheet after removing the impact of the consolidation of the limited-recourse Funding Vehicles from Pepper's statutory consolidated balance sheet.*
2. *Pro Forma adjustments to retrospectively account for the expected impact of the Offer (including proceeds from the Offer, payments to Existing Shareholders, payment of Initial Public Offering transaction costs), the recognition of impact of the LTI Scheme structure acceleration contemporaneous with the Offer, and the acquisition of PrimeCredit on Pepper's balance sheet.*
3. ***Cash and cash equivalents** under statutory presentation include cash held at the corporate level, as well as cash held in limited-recourse Funding Vehicles as collateral for warehouse funders and investors. This item is adjusted on a Pro Forma basis to exclude cash that is held in limited-recourse Funding Vehicles. Statutory and Pro Forma cash also includes $88 million of restricted cash held in Pepper Savings Bank, which is unable to be transferred from South Korea, and $18.8 million held on trust as part of Pepper's day-to-day clearing*

and origination operations. The statutory cash balance also includes $80.8 million of cash on escrow deposit which was used to fund the acquisition of Pepper's 12% stake in PrimeCredit and which was settled on 6 May 2015 and is adjusted in the Pro Forma Historical Balance Sheet.

4. ***Securities** predominantly relate to monetary stabilisation bonds issued by the Bank of Korea and other available for sale (**AFS**) securities held by Pepper Savings Bank in South Korea.*
5. ***Receivables** primarily relate to interest and fee income receivable across the Group. Statutory presentation represents the receivables balance (excluding loans and advances) consolidating for all limited-recourse Funding Vehicles, whereas Pro Forma presentation includes Pepper's share of income receivable from limited-recourse Funding Vehicles, along with receivables from Pepper Savings Bank.*
6. ***Other assets** include prepayments and lease deposits.*
7. ***Loans and advances** primarily relate to customer loan receivables and lease receivables which are held in Warehouse Facility and Term Securitisation Funding Vehicles, as well as loans and advances from Pepper Savings Bank, which are held on-balance sheet (net of provisions for doubtful debts). Pepper Spain also holds loans on-balance sheet for the current month's production before being materially transferred to a limited-recourse entity. Pepper Spain retains an Equity Note type exposure to the loans transferred. On a Pro Forma basis, all loan receivables and lease receivables held at the limited-recourse Funding Vehicle level are adjusted out, leaving only the loans and advances held on-balance sheet primarily from Pepper Savings Bank.*
8. ***Investments:** On a statutory basis, this item represents capitalised deal costs, investments in Ireland loan notes, property investments in Pepper Savings Bank and third-party investments held by PIM Funds. On a Pro Forma basis, the value of this line item increases to recognise Pepper's investment in the Equity Notes in Pepper-controlled limited-recourse Funding Vehicles ($88.2 million) offset by the de-consolidation of third-party investments held by the PIM Funds ($18.8 million). In addition, the value of Pepper's 12% interest in PrimeCredit ($80.8 million) has been recognised on a Pro Forma basis.*
9. ***Intangible assets** primarily relate to the South Korean mutual banking registration, software and the mortgage servicing rights acquired as part of the Oakwood acquisition in the United Kingdom.*
10. ***Deposits** relate to retail customer deposits held by Pepper Savings Bank in South Korea.*
11. ***Trade and other payables** include monthly accruals and trade creditors for expenses such as rent, utilities, and other business costs.*
12. ***Borrowings** primarily relate to drawn debt financing facilities including notes and Warehouse Facility funding, accrued interest payable to funding providers at the limited-recourse Funding Vehicle level and Corporate Debt Facilities. The portion of statutory borrowings classified as current at 31 December 2014 was $1,197.7 million, with the remainder considered non-current. Pro forma presentation removes all borrowings held at the limited-recourse Funding Vehicle level and therefore reflects Corporate Debt Facilities that are expected to be repaid with the proceeds of the Offer. Section 2.7 sets out a detailed disclosure in respect of the key debt facilities associated with the Funding Vehicles of Pepper.*
13. ***Other liabilities** include trail commissions payable to brokers in relation to the acquisition in CY2011 of the GE Capital Australia and New Zealand home lending business, unearned income mainly in connection with mortgage risk fees and clearing account cash due to external parties.*
14. ***Total equity** differs marginally between statutory and Pro Forma presentation as a result of certain cash flow hedging arrangements in limited-recourse Funding Vehicles.*

3.6.1 Indebtedness, capital and liquidity

Pepper's principal sources of funding for investing and general corporate activities comprise cash generated from operations, cash on hand, and borrowings available under Pepper's Corporate Debt Facilities. In South Korea, Pepper Savings Bank has access to retail customer deposits and cash on hand and cash equivalents to fund its corporate and lending activities. Following Completion of the Offer, Pepper's Corporate Debt Facilities will be undrawn, resulting in Pepper's Pro Forma unrestricted cash balances as at 31 December 2014 being $50.8 million.

As at 31 December 2014 Pepper also had in place a total of $3.2 billion of committed Warehouse Facilities in order to fund its loan origination activities in the Australia and New Zealand and International Divisions.

Pepper periodically accesses the debt capital markets through the issuance of Term Securitisations to refinance drawn balances under its Warehouse Facilities. Pepper has issued $5.9 billion in Term Securitisations since 2003 and typically seeks to issue a Term Securitisation every four to six months, subject to new loan origination volumes and this is likely to increase as lending ramps up in Europe. The current outstanding issuance under Pepper's Term Securitisation program is set out in Section 2.7.2.2.

Further details of Pepper's funding arrangements are set out in Section 2.7 and details of funding documentation are set out in Section 8.5.

Pepper expects to have sufficient cash flow, including access to its undrawn Corporate Debt Facilities, to meet operational needs for growth objectives during the Forecast Period. Pepper Management expects to draw down on the committed Corporate Debt Facilities in the fourth quarter of CY2015 to fund expected lending growth.

Table 37 sets out the indebtedness of Pepper as at 31 December 2014 on a statutory basis (including limited-recourse Funding Vehicles) and on a Pro Forma basis (excluding limited-recourse Funding Vehicles and following Completion of the Offer).

Table 37: Statutory and Pro Forma consolidated indebtedness as at 31 December 2014

$ millions	Note	Statutory	Pro Forma
Funding Vehicle debt			
Warehouse Facility borrowings	*1*	1,782.5	–
Term Securitisation funding	*1*	2,299.0	–
Total limited-recourse funding		**4,081.5**	**–**
Restricted cash and cash equivalents in Funding Vehicles		(233.9)	–
Net limited-recourse debt – Warehouse Facility and Term Securitisation Funding Vehicles		**3,847.6**	**–**
Corporate debt	*2*		
Loans and borrowings	*3*	100.5	0.5
Less: unrestricted corporate cash and cash equivalents		(40.1)	(51.9)
Net Corporate debt (Net recourse debt)		**60.4**	**(50.3)**
Net total debt (Funding Vehicles and corporate)		**3,908.0**	**(50.3)**
Balance sheet			
Total assets		4,867.7	797.7
Total equity		247.5	364.1
Key metrics			
Net total debt/Total assets		80.3%	Net cash
Net recourse debt/Total equity		n.a.	Net cash
Net recourse debt/CY2015 Profit before tax		n.a.	Net cash

Notes:

1. ***Warehouse Facility borrowings and Term Securitisation funding*** *in the Funding Vehicles are disclosed in the statutory accounts and de-consolidated on a Pro Forma basis. (See Section 3.3.1.1 for more detail).*
2. ***Corporate debt*** *excludes retail customer deposits in South Korea that are disclosed separately as deposits on the statutory and Pro Forma balance sheet.*
3. ***Loans and borrowings*** *comprise the Corporate Debt Facilities but exclude the customer deposits in South Korea.*

3.6.2 Description of the Corporate Debt Facilities

3.6.2.1 Overview

On 9 December 2014, Pepper entered into Corporate Debt Facilities with a major Australian trading bank and a number of other non-bank financiers. The Corporate Debt Facilities mature in December 2017.

3.6.2.2 Amount

The total aggregate limit under the Corporate Debt Facilities is $130 million. The Corporate Debt Facilities are available for drawings in Australian dollars by way of cash advances. At the Prospectus Date, the Corporate Debt Facilities are anticipated to be drawn to $123.0 million but will be repaid with the proceeds of the Offer.

3.6.2.3 Interest rate

The Corporate Debt Facilities bear interest at the bank bill swap rate for the relevant interest period plus a margin.

There are no hedging arrangements in place for these facilities. Undrawn commitment fees are charged at 40% of the applicable margin.

3.6.2.4 Guarantees and security

The Corporate Debt Facilities are guaranteed by Pepper, each borrower under the Corporate Debt Facilities and certain wholly owned subsidiaries of Pepper (each a **Guarantor**). Subject to exceptions, each Guarantor grants security over all of its assets in favour of a security trustee to secure the Corporate Debt Facilities. The guarantees and security may also secure any hedging arrangements entered into in respect of the Corporate Debt Facilities.

3.6.2.5 Financial covenants

Each Corporate Debt Facility is subject to certain financial covenants that apply to the Group. These financial covenants are tested semi-annually as at each 30 June and 31 December, with the first test being carried out as at 31 December 2014.

Pepper was in compliance with these financial covenants for the 31 December 2014 reporting date and expects to be in compliance with these financial covenants for the Forecast Period.

The key components of these financial covenants are summarised below:

Table 38: Key components of financial covenants

Covenant name	Definition	Calculation
Interest cover ratio	• The ratio of Cash NPAT to Net Interest Expense, where: – **Cash NPAT** is net profit after tax for the preceding 12 months after adding back certain items, as derived from the latest financial statements; and – **Net interest expense** is the accrued interest expense on each facility, less accrued interest on “available cash” (as defined in the Corporate Debt Facilities) as included in the Group’s latest financial statements.	• Must be greater than or equal to 2.50:1
Leverage ratio	• The ratio of Net Debt to EBITDA, where: – **Net debt** is the aggregate of the principal of all interest bearing liabilities, disclosed in the Group’s latest financial statements, less amounts attributable to certain “excluded subsidiaries” (as defined in the Corporate Debt Facilities) and any amounts attributable to the provision of “risk retention guarantees” or “risk retention loan” (as defined in the Corporate Debt Facilities); and – **EBITDA** is the statutory NPAT, for each member of the Group (subject to certain exclusions) before interest charges related to each facility, tax, depreciation and amortisation.	• Must be less than or equal to 2.50:1
Net asset cover ratio	• The ratio of: – **Net assets** being total equity of the Group as disclosed in the latest financial statements less intangibles plus a defined value of certain assumed cash flows derived from its Funding Vehicles or through third-party servicing; to – **Net debt** (as defined above).	• Must be greater than or equal to 1.25:1

In addition, Pepper has undertaken to ensure that upon first utilisation of a facility and upon any subsequent increase in commitments, the committed senior secured debt (both drawn and undrawn) is less than or equal to 45% of total equity of the Group as disclosed in the latest financial statements less intangibles plus a defined value of certain assumed cash flows derived from its Funding Vehicles or through third-party servicing contracts.

The Corporate Debt Facilities also require Pepper to ensure that its exposure to guarantees provided to support its Warehouse Facilities or Term Securitisations remain below certain levels.

3.6.2.6 Mandatory repayments

If the Interest Cover Ratio is less than 2.50:1, the leverage ratio is greater than 2.00:1 or the net asset coverage ratio is less than or equal to 1.75:1 (each a **Corporate Debt Facilities Amortisation Event**), then Pepper will be required to repay the amount outstanding under the relevant Corporate Debt Facilities by a pre-agreed amount. This amount will vary depending on the level of the financial ratios at the time and at previous testing dates.

3.6.2.7 Conditions precedent

The Corporate Debt Facilities contain conditions precedent that include no events of default or potential events of default, representations and warranties being correct in all material respects and compliance with prescribed performance triggers under the financial covenants. The Corporate Debt Facilities may not be drawn if their conditions precedent are not satisfied or if a Corporate Debt Facilities Amortisation Event has occurred and is subsisting or will result from the proposed drawdown.

3.6.2.8 Review event

The Corporate Debt Facilities are subject to a review event that will be triggered if a person or group of people acting together acquires, directly or indirectly, control (as defined in section 50AA of the Corporations Act) of Pepper.

Upon the occurrence of a review event, there will be a 30 day negotiation period and, failing agreement, a lender may require the repayment in full of all amounts outstanding under the relevant Corporate Debt Facilities within 90 days.

3.6.2.9 Distributions

Under the Corporate Debt Facilities, Pepper is not permitted to declare a dividend or any other form of distribution to its Shareholders or pay any management fee to any Shareholder or affiliate where an event of default or review event is subsisting or would result from doing so, a Corporate Debt Facilities Amortisation Event is subsisting or would result from doing so or the relevant dividend or distribution is not permitted under the Corporations Act.

3.6.2.10 Other

Each Corporate Debt Facility is subject to representations and warranties, undertakings, events of default and other terms and conditions. An event of default includes non-payment, a breach of a financial or other covenant and events related to solvency. Upon an event of default occurring, a lender can cancel the commitment of that lender under that Corporate Debt Facility and declare that all or part of amounts owing under the Corporate Debt Facility are due and payable immediately. Enforcement of the security (or any other enforcement action) can only occur:

- where the event of default is a payment default and the instructions of any lender that has not received such payment have been received; or
- in all other circumstances, with the consent of or on the instructions of a lender or lenders whose exposures aggregate more than two thirds of the total exposures.

3.6.3 Limited-recourse financing

3.6.3.1 Warehouse Facilities

See Sections 2.7.2.1 and 8.5.2 for a description of Pepper's Warehouse Facility funding arrangements.

3.6.3.2 Term Securitisations

See Sections 2.7.2.3 and 8.5.2 for a description of Pepper's Term Securitisation funding arrangements.

3.6.4 Other financial arrangements

As permitted under its Corporate Debt Facilities, Pepper provides as part of its ordinary conduct of business certain "risk retention guarantees" and "risk retention loans" in connection with its Term Securitisations. These arrangements are typically entered into for the purpose of meeting "skin in the game" regulatory requirements in any relevant jurisdiction (including, but not limited to, Article 405 of Regulation (EU) No 575/2013 of the European Parliament and Council).

In this respect, Pepper may arrange for loans to be provided to Group members for the sole purpose of funding the acquisition of debt obligations issued by the relevant Funding Vehicles (among other entities) where the terms of such loans are in substance reasonably comparable or matched to that Funding Vehicle's debt obligations and where the holding of such debt obligations is to satisfy prescribed risk retention requirements of any such relevant jurisdiction. This form of risk retention will typically be accommodated in a wholly owned subsidiary that will borrow from a bank or other financial institution sufficient to fund the majority of the required investment required by the regulations – typically, 5% of the relevant Funding Vehicle's issued notes.

Under the relevant Funding Vehicle documents, Pepper will be required to hold these notes for the life of the relevant transaction. The terms of the borrowing used to fund the note acquisition will typically require that the amount borrowed be secured by first mortgage over the notes held by the relevant Pepper subsidiary and the terms for interest and principal payments are similar to those of the relevant debt obligations themselves. The assets and liabilities of the special purpose entities that hold these notes will then be guaranteed by Pepper to ensure that the spirit of the regulations is met that Pepper holds a genuine material interest in the relevant transaction.

3.7 Summary Pro Forma Historical and Forecast Cash Flows and Statutory Forecast Cash Flows

Table 39 presents the Pro Forma Historical Cash Flows for CY2012, CY2013 and CY2014, the Pro Forma Forecast Cash Flows for CY2015 and the Statutory Forecast Cash Flows for CY2015.

The Pro Forma Forecast Cash Flows for CY2015 are based on the Statutory Forecast Cash Flows, adjusted for Pro Forma adjustments reflecting the full year effect of certain operating costs that will be in place on Completion of the Offer as if the operating costs had been incurred from 1 January 2015. The Statutory Forecast Cash Flows for CY2015 are the best estimate of the cash flows that the Directors expect to report in Pepper's Statutory Financial Statements for CY2015.

Table 39: Summary of Pro Forma historical, Pro Forma forecast and statutory forecast consolidated cash flows

		Pro Forma historical			Pro Forma forecast	Statutory forecast
$ millions	**Note**	**CY2012**	**CY2013**	**CY2014**	**CY2015**	**CY2015**
Profit before tax		**33.3**	**49.0**	**48.3**	**56.7**	**11.7**
Add back non-cash items:						
Depreciation and amortisation expenses		1.2	2.7	6.3	8.8	8.8
Securitisation deal cost amortisation	*1*	2.1	3.8	7.3	7.2	11.1
Upfront broker fee amortisation	*2*	2.4	4.7	13.7	19.5	19.5
Management incentive expense	*3*	2.1	2.0	2.0	2.0	33.1
Share of profit from associate	*4*	–	–	–	(5.0)	(0.8)
Broker fees expenditure	*5*	(7.5)	(6.9)	(13.6)	(39.0)	(39.0)
Arrangement fees expenditure	*6*	(2.5)	(6.9)	(10.5)	(11.6)	(11.8)
Movement in working capital/balance sheet	*7*	0.9	13.4	3.7	0.3	(2.5)
Operating cash flow before financing and taxation		**32.0**	**61.8**	**57.2**	**38.9**	**30.1**
Capital expenditure	*8*	(2.7)	(5.2)	(7.4)	(9.7)	(9.7)
Equity investment in Funding Vehicles	*9*	3.0	(21.0)	(0.1)	0.1	(6.2)
Net cash flow before financing and taxation		**32.3**	**35.6**	**49.7**	**29.3**	**14.2**
Net lending activities	*10*	–	24.7	(94.5)	(124.8)	(122.9)
Net investing activity in Government securities (South Korea)	*11*	–	(75.0)	43.1	69.1	69.1
Net cash flow before corporate financing and taxation		**32.3**	**(14.7)**	**(1.7)**	**(26.4)**	**(39.6)**
Income taxes paid					(17.7)	(17.7)
PrimeCredit acquisition payment					–	(80.8)
Proceeds from the Offer	*12*				–	138.4
Repayment of banking facilities	*13*				–	(100.0)
Transaction costs	*14*				–	(14.8)
Equity dividends and redemption	*15*				–	(11.4)
Net cash flow					**(44.1)**	**(125.9)**

Notes:

1. ***Securitisation deal cost amortisation** is the amortisation of costs associated with establishing the Funding Vehicles used to fund Pepper's loan origination activities. In the income statement, arrangement fees are capitalised and amortised on a straight-line basis over the anticipated terms of the relevant Funding Vehicles.*
2. ***Upfront broker fee amortisation** is the amortisation of broker fees payable in connection with loan origination and amortised in the income statement over the life of the loans using the effective interest rate method.*
3. ***Management incentive expense** is the adjustment to recognise the portion of management incentive expense recognised as an expense in the income statement which is paid in Pepper shares, rather than cash.*
4. ***Share of profit from associate** relates to Pepper's share of the NPAT of PrimeCredit.*
5. ***Broker fees expenditure** is the recognition of the actual value of the cash outflow from payment of broker commissions in each financial year.*
6. ***Arrangement fees expenditure** represents the cash outflow incurred at the date of the establishment of the Term Securitisation Funding Vehicles in each financial year.*
7. ***Movement in working capital/balance sheet** is described in Section 3.3.4.*
8. ***Capital expenditure** is described in Section 3.3.4.*
9. ***Equity investment in Funding Vehicles** is described in Section 3.3.4.*

10. ***Net lending activities*** *represents the net inflows/outflows from loan origination activities in both Spain and South Korea, deposit-taking activities in South Korea and the sale of loans into the Spain Funding Vehicle. Refer to Sections 3.8.3, 3.8.5 and 3.10.2 for further details.*
11. ***Net investing activity in Government securities (South Korea)*** *represents the net inflows/outflows associated with the investing of excess cash balances acquired with the business in Government securities and their subsequent realisation to fund lending activity. Refer to Sections 3.8.3, 3.8.5 and 3.10.2 for further details.*
12. ***Proceeds from the Offer*** *and outflows from Offer proceeds used to pay transaction costs associated with the Offer and pay down Corporate Debt Facilities.*
13. ***Repayment of banking facilities*** *relates to the repayment of the Corporate Debt Facilities using the proceeds of the Offer.*
14. ***Transaction costs*** *relate to costs incurred in relation to the Offer that are offset against equity on the balance sheet. The remaining Offer transaction costs attributable to the sell down by Existing Shareholders are reflected in the statutory profit after tax.*
15. ***Equity dividends and redemption*** *include $1.9 million dividends paid on A Class Shares in February 2015 and $9.5 million reflecting the cash flow of the redemption of preference Shares net of funds raised by the issuance of ordinary share capital. These arrangements will be unwound as part of the Offer.*

3.7.1 Pro forma adjustments to the statutory historical net cash flow before financing and taxation and statutory forecast net cash flow

Table 40 sets out a reconciliation of the statutory historical net cash flow before financing and tax to the historical Pro Forma net cash flow before corporate financing and tax for CY2012, CY2013 and CY2014.

Table 40: Reconciliation of statutory historical net cash flow before financing and tax and Pro Forma net cash flow before corporate financing and tax

		Historical		
$ millions	**Note**	**CY2012**	**CY2013**	**CY2014**
Statutory net cash flow before financing and taxation	*1*	**33.9**	**43.9**	**35.6**
Limited-recourse Funding Vehicle working capital movement	*2*	(8.7)	4.3	8.4
Limited-recourse Funding Vehicle arrangement fees expenditure	*3*	5.2	0.8	2.1
Full year recognition of acquired operations	*4*	–	3.7	–
Net Equity investment in Funding Vehicles	*5*	3.0	(21.0)	(0.1)
Net lending activities (South Korea and Spain)	*6*	–	24.7	(94.5)
Net investing activity in Government securities (South Korea)	*7*	–	(75.0)	43.1
Net finance costs	*8*	(0.3)	2.8	4.8
Transaction costs	*9*	0.3	2.2	–
Listed public company costs	*10*	(1.1)	(1.1)	(1.1)
Pro Forma net cash flow before corporate financing and taxation		**32.3**	**(14.7)**	**(1.7)**

Notes:

1. ***Statutory net cash flow before financing and taxation*** *has been derived from net cash from operating activities presented in the statutory consolidated financial statements adjusted to include selected investing activities to present statutory and Pro Forma net cash flow before corporate financing and taxation on a comparable basis. The statutory net cash flow before financing and taxation includes investing activity in items of capital expenditure, property, plant and equipment and intangible assets, arrangement fees and broker fees. The statutory net cash flow before corporate financing and taxation in CY2013 includes the reclassification of certain lending and investing items for consistent presentation with other periods.*
2. ***Limited-recourse Funding Vehicle working capital movement*** *represents the movement in balance sheet accounts including third-party customer loan receivables and trade payables and accruals of the limited-recourse Funding Vehicles. Note, on a basis consistent with the statutory consolidated financial statements, the presentation of the movement in balance sheet accounts does not include the funding liabilities of the limited-recourse Funding Vehicles (designated as financing cash flows).*
3. ***Limited-recourse Funding Vehicles arrangement fee expenditure*** *represents arrangement fees incurred directly by the Funding Vehicles.*
4. ***Full year recognition of acquired operations*** *is an adjustment to reflect contributions to total profit before tax from PAPL's acquisition of Pepper Europe.*
5. *Investment of "first loss" equity into, and release of residual capital from, Pepper's limited-recourse Funding Vehicles are adjusted in the Pro Forma accounts to be included in net cash flow before corporate financing and taxation. Only investment into third-party Funding Vehicles is recorded in statutory consolidated statement of cash flows. This has not been reflected in the statutory net cash flows before financing and taxation.*

6. *Adjustment relates to lending activities in South Korea and Spain and arises due to loan origination and customer deposit-taking activities in the Pro Forma cash flows being taken to be before corporate financing and taxation. These lending activities are recorded as investing activities in the statutory consolidated financial statements and have not been reflected in the statutory net cash flows before financing and taxation.*
7. *Adjustment relates to activities associated with the investment of cash in Government securities in South Korea in the Pro Forma cash flows taken to be before corporate financing. This activity is recorded as an investing activity in the statutory consolidated financial statements and has not been reflected in the statutory net cash flows before financing and taxation.*
8. ***Net finance costs** are adjusted to reflect the Pro Forma interest expense on the Corporate Debt Facilities, assuming that debt pay down as part of the Offer was completed as at 1 January 2012.*
9. ***Transaction costs** relate to one-off acquisition costs pertaining to historical business acquisitions as discussed in Note 9 to Table 32.*
10. ***Pro Forma adjustments** include incremental cash flow effects from being a listed public company as discussed in Note 11 to Table 32.*

Table 41 sets out a reconciliation of the statutory forecast net cash flow to the forecast Pro Forma net cash flow for CY2015.

Table 41: Pro forma adjustments to the statutory forecast consolidated net cash flows for CY2015

$ millions	Note	Forecast CY2015
Statutory consolidated net cash flow		**(125.9)**
Full year recognition of PrimeCredit	*1*	1.4
Corporate Debt Facilities interest	*2*	5.4
Equity investment in Funding Vehicles	*3*	6.3
Net lending activities	*4*	(1.9)
PrimeCredit acquisition payment		80.8
Movement in working capital/balance sheet		(1.3)
Securitisation deal costs/arrangement fees		0.2
Listed public company costs		(0.5)
Proceeds from the Offer		138.4
Repayment of banking facilities		100.0
Transaction costs	*5*	18.4
Equity dividends and repayments		11.4
Pro Forma net cash flow		**(44.1)**

Notes:

1. *CY2015 Pro Forma results assume Pepper earned a full year of management fee income from PrimeCredit in CY2015. Adjustment is to recognise the Pro Forma portion of management fee income prior to acquisition by Pepper and its consortium partners.*
2. *Net finance costs in statutory cash flows assume the Corporate Debt Facilities are repaid at the date of the Offer. On a Pro Forma basis, the net financing costs assume that debt pay down as part of Offer was completed as at 1 January 2012.*
3. *The Pro Forma presentation of equity investment in Funding Vehicles includes the net investment by Pepper in the "first loss" equity capital of the securitised Funding Vehicles. In the statutory consolidated net cash flows, the equity investment in Funding Vehicles reflects only the net investment by Pepper in investments in third-party Funding Vehicles as transactions involving Pepper securitised Funding Vehicles are eliminated upon consolidation.*
4. *In the statutory consolidated net cash flows, net lending activities represent those activities inclusive of the Funding Vehicles. On this basis, third-party customer loan advances and collections and proceeds and repayment of borrowings are included in statutory net lending activities. The Pro Forma presentation represents net lending and investing activities exclusive of the Funding Vehicles.*
5. *Transaction costs include non-recurring business sale costs and Offer transaction costs incurred (advisers, Joint Lead Managers, accounting and legal fees), inclusive of fees assumed to be capitalised to issued capital or expensed in the CY2015 statutory income statement.*

3.8 Management discussion and analysis of the Pro Forma Historical Financial Information

3.8.1 General factors affecting the operating results

Set out below is a discussion of the general factors that have affected Pepper's operations and relative financial performance in CY2012, CY2013 and CY2014, and which the Directors expect may continue to affect its operating and financial performance in the Forecast Period.

The discussion of these general factors is intended to provide a brief summary only and does not detail all factors that affected Pepper's historical operating and financial performance, nor everything that may affect Pepper's operations and financial performance in the future.

3.8.1.1 Total income

At a general level, the key drivers of income for Pepper are:

- the total balances of mortgage, consumer and other loans for which Pepper either lends to borrowers or provides servicing and management functions;
- the rate of originations of new loans, the mix of originations particularly across prime and non-conforming mortgages in Australia, and the level of acquisition of loan portfolios;
- CPR speeds which represent the rate at which principal balances outstanding are being repaid by existing borrowers across origination and servicing assets and the timing of those repayments;
- the contracted interest payments from borrowers and funding costs associated with those loans;
- the contracted rates under servicing and Funding Vehicle management contracts;
- the value of assets attributable to servicing contracts which have been successfully won at tender or by acquisition and the timing of those wins;
- the contracted rates of fee income associated with originations of new loans;
- the level of loan losses incurred on mortgage, consumer and other loans netted against lending income; and
- the contracted rates of advisory mandates which have been successfully won at tender or requests for proposal and the timing of those wins.

The major components of Income are:

- **Lending income** represents the aggregation of net distributions to Pepper from Pepper-controlled Funding Vehicles after payment of Funding Vehicle expenses including management, servicing and trustee fees and interest paid to third-party funding providers and loan loss provisions. Pepper International Division also generates gross lending income through investments in Equity Notes of third-party Funding Vehicles and on-balance sheet lending in South Korea (shown net of funding costs and loan losses) and on the current month's origination production held on-balance sheet in Spain. Lending income is therefore influenced by the contracted rate of interest income earned on loans from customers and third-party Funding Vehicle investments made to support servicing contracts, the rate of interest paid on borrowings and customer deposits, loan losses, the level of AUM and the mix shift between loan products. Non-conforming mortgages typically attract a higher lending income margin and since 2011 Pepper has experienced a mix shift towards non-conforming mortgages driven by increased originations against the run-off of the GE Capital Australia and New Zealand acquired home lending prime mortgage business. In addition, Pepper commenced prime lending in November 2013 and more recently Pepper Asset Finance commenced lending in the Australian auto and equipment market in November 2014;
- **Loan origination fees** represent origination settlement fees, mortgage risk and lender's protection fees and application and account fees associated with auto and equipment loans, which are earned at settlement of a loan. Fee rates differ depending on the type of product although the amount of fees is a function of origination volumes and mix between prime mortgages, non-conforming mortgages and auto and equipment loan volumes. The mortgage risk fee is typically earned on non-conforming mortgages and lender's protection fee on prime mortgages. Fee rates are also a function of competition in the market;

- **Servicing and loan administration fees** are negotiated per contract with the fee basis being agreed upfront. Fees include a base and variable component and typically include a performance-based element linked to the achievement of performance milestones as well as financial outcomes for the owners of the loan assets. The servicing rates charged vary depending on the complexity of the portfolio, size of mandate and other relevant factors. The size of performance fees depends on individual contractual arrangements when contracts were established, the servicing performance of Pepper and financial returns to the owners of the portfolios; and
- **Advisory and other income** includes income from Pepper Property Group, realised foreign exchange gains and losses and income on the services agreements relating to PrimeCredit, and is affected by factors including the demand for specialised commercial property advice and foreign exchange movements. Pepper Property Group is an advisory and corporate finance business and as a result, its income is somewhat irregular due to the unpredictable timing of completion of property transactions and the success fees attached to those projects. Pepper has recognised income from the consolidation of a non-wholly owned subsidiary (Morgij Holdings Pty Ltd) within other income (CY2012 $0.9 million, CY2013 $1.9 million, CY2014 $1.6 million). Following a corporate restructure of the Morgij business, Pepper now holds a shareholding interest in the newly formed Loan RQ group (Loan RQ Pty Ltd). Pepper will treat the investment in Loan RQ of c.21% on an equity accounted basis. The contribution to the Pepper Group net profit after tax (**NPAT**) from this investment in each of the historical periods has been a small loss. The share of profit in CY2015 has been assumed to be nil.

3.8.1.2 Operating expenses

In general, Pepper's operating expenses have increased as a result of organic growth or acquisition, as Pepper continues to build scale in Australia and expand the International Division.

In addition, Pepper commenced new lending activities in the Australian auto and equipment finance market (Pepper Asset Finance) in the fourth quarter CY2014 and new direct lending activities in Spain (**Spain Lending**) in October 2014 and the United Kingdom (**United Kingdom Lending**) in June 2015. Material operating expenses were incurred to build these platforms and accordingly these lending businesses have been loss making prior to reaching critical scale and realising operating leverage. It is expected that both Pepper Asset Finance and Pepper South Korea will move towards breakeven and become profitable in CY2015. As origination growth continues, these platforms will be expected to realise significant operational leverage.

Key expenses include:

- **Commission and direct marketing expenses** represent amortisation of upfront broker commissions and trail commission expense along with direct marketing expense and are predominantly impacted by such factors as level of new originations, changes in the product mix of loans originated, changes in competition in the loan distribution market and Pepper expansion strategies into new products or distribution channels where Pepper seeks to grow market share;
- **Employee compensation and benefits expenses** represent salaries and wages, variable staff incentives and other staff-related costs and is predominantly impacted by increases in Servicing AUM which drives increased headcount and development of new platforms, distribution channels or market segments, each of which drives increased headcount. As Pepper has undertaken significant international expansion, including into new markets, there has been a significant ramp-up in employee compensation and benefits expenses ahead of revenues;
- **Occupancy expenses** represent lease and other property-related expenses;
- **Professional expenses** include consulting, legal and audit fees which are incurred from time to time and are driven by the level of investment opportunities and ongoing securitisation and financing activities;
- **Depreciation and amortisation expenses** include depreciation of Company fixed assets and amortisation of intangible assets, which includes the amortisation of finite life intangible mortgage servicing rights recognised upon acquisition of Pepper United Kingdom (specifically, the Oakwood servicing platform) in October 2013. Depreciation and amortisation is largely influenced by capital expenditure programs and business or platform acquisitions;
- **General and administration expenses** include various business function and corporate support costs including travel, IT and communication costs and are driven by the expansion of Pepper's businesses; and
- **Corporate interest expense** includes interest payable on the Corporate Debt Facilities and is a function of the level of drawings.

3.8.1.3 Working capital

Working capital includes third-party customer and Funding Vehicle receivables, trade payables and accruals, unearned income and provisions and is generally driven by the level of business activity. The unamortised portion of mortgage risk fees is reflected in unearned income.

3.8.1.4 Capital expenditure

Capital expenditure includes investment in office infrastructure, furnishings and equipment and intangible software and licence assets. Information technology infrastructure and software expenditure is an aspect of capital expenditure required to support Pepper's lending and servicing business activities.

3.8.1.5 Equity investments in limited-recourse Funding Vehicles

Equity investments in Funding Vehicles include the initial investment by Pepper of "first loss" equity or Equity Notes in Funding Vehicles net of the capital return from investment as the associated Funding Vehicles are closed. Pepper invests "first loss" equity in limited-recourse lending Funding Vehicles, predominantly in the Australian market and in certain circumstances, in Funding Vehicles serviced by Pepper in European countries. The level of investment is influenced by the preferences of Funding Vehicle senior noteholders and equity co-investors within the Funding Vehicles. It is expected that as lending grows in Europe so will the associated investments into Equity Notes in Funding Vehicles.

3.8.2 Pro Forma historical income statements: CY2013 compared to CY2012

Table 42 sets out the summary Pro Forma Historical Income Statements for CY2013 and CY2012.

Table 42: Pro Forma historical income statements: CY2013 compared to CY2012

	Pro Forma historical			
$ millions	**CY2012**	**CY2013**	**Change**	**Change %**
Lending income	48.8	61.0	12.2	24.9%
Loan origination fees	3.2	6.4	3.2	98.7%
Servicing and loan administration fees	22.9	70.8	47.9	209.7%
Advisory and other income	7.1	22.0	14.9	211.2%
Total income	**82.0**	**160.2**	**78.2**	**95.4%**
Share of profit from associate	–	–	n.a.	n.a.
Commission and direct marketing expenses	(2.4)	(4.7)	(2.3)	91.8%
Employee compensation and benefits expenses	(28.2)	(70.0)	(41.8)	148.0%
Occupancy expenses	(1.9)	(5.8)	(3.9)	206.4%
Professional expenses	(3.7)	(10.8)	(7.1)	189.0%
Depreciation and amortisation expenses	(1.2)	(2.7)	(1.5)	135.6%
General and administration expenses	(9.4)	(15.3)	(5.9)	63.4%
Corporate interest expense	(1.9)	(1.9)	–	–%
Profit before tax	**33.3**	**49.0**	**15.7**	**47.3%**
Australia and New Zealand Division	43.1	55.8	12.7	29.7%
International Division	–	5.1	5.1	n.m.
Corporate Division	(9.8)	(11.9)	(2.1)	21.7%
Profit before tax	**33.3**	**49.0**	**15.7**	**47.3%**

3.8.2.1 CY2013 compared to CY2012 discussion

3.8.2.1.1 Total income

Total income increased by $78.2 million, from $82.0 million in CY2012 to $160.2 million in CY2013, an increase of 95.4% driven by:

- lending income increased by $12.2 million, from $48.8 million in CY2012 to $61.0 million in CY2013, an increase of 24.9%.
  - Australia and New Zealand Division lending income increased by $9.7 million mainly driven by margin expansion as a result of a mix shift to higher margin non-conforming mortgages supported by growth in origination of non-conforming mortgages and run-off of the acquired GE Prime book as well as the transition from higher cost post-financial crisis funding into cheaper funding. Losses experienced on newer non-conforming PRS issuance also exhibited improving performance relative to AUM.

 - International lending income increased by $2.5 million in its first year of lending with the South Korean business being the predominant contributor for the year from the acquisition of the Evergreen Savings Bank in late CY2013;
- loan origination fees increased by $3.2 million or 98.7% driven by a material increase in Australia and New Zealand Division non-conforming mortgage originations;
- servicing and loan administration fees increased by $47.9 million from $22.9 million in CY2012 to $70.8 million in CY2013, an increase of 209.7%
  - Australia and New Zealand Division servicing and loan administration fees increased by $7.1 million driven by Servicing AUM growth of $0.6 billion and an increase in servicing income from Pepper's lending portfolio.
  - International Division servicing and loan administration fees increased to $40.8 million in its first full year of contribution to the Group, driven mostly by the full year effect of Pepper's market entry into Ireland (September 2012) and three months contribution from the United Kingdom following the Oakwood acquisition (September 2013). There were also a number of successful tenders to service third-party residential and CRE Funding Vehicles which were won during the year and contributed to the growth in CY2013, although timing between contract signing and completion of onboarding varied.
  - Total performance fees increased from nil in CY2012 to $9.3 million in CY2013, all derived in the Australia and New Zealand Division. $3.9 million of fees were earned by Pepper following the refinance of a Funding Vehicle that Pepper acquired as part of the GE Capital Australia and New Zealand mortgage lending business acquisition and was subsequently sold to third parties. The refinance resulted in those investors achieving agreed portfolio return thresholds and accordingly Pepper received performance fees; and
- advisory and other income rose $14.9 million from $7.1 million in CY2012 to $22.0 million in CY2013. This outcome was primarily due to an $8.8 million increase in income from Pepper Property Group which was acquired in July 2012 such that CY2013 represents a full year contribution from this business, and $4.0 million of realised foreign exchange gains primarily as a result of the Australian dollar weakening against the euro and British pound denominated net assets that Pepper held. A $2.7 million gain was also recognised in relation to the disposal of a third-party commercial mortgage portfolio.

3.8.2.1.2 Expenses

Total expenses increased by $62.5 million, from $48.7 million in CY2012 to $111.2 million in CY2013, an increase of 128.3%. The major changes during the year are summarised as follows:

- employment compensation and benefits expenses increased by $41.8 million from $28.2 million to $70.0 million driven by an increase of $11.0 million in the Australia and New Zealand Division, $26.5 million of additional expenses in the first full year of operations in the International Division along with a $4.3 million increase in the Corporate Division. The increase in the Australia and New Zealand Division was due to an increased headcount across mortgages and full 12 months contribution from Pepper Property Group, while the International Division reflected the full 12 months of operations for the acquisitions in Ireland and the United Kingdom as well as part year start-up costs in Spain. Corporate Division increases were as a result of increased senior executive headcount to support and drive the expansion of the business;
- commission and direct marketing expenses increased by $2.3 million driven by broker commissions, reflecting growth in non-conforming mortgage originations in Australia;
- occupancy expenses increased by $3.9 million, while general and administration expenses increased by $5.9 million in line with business expansion across all regions particularly in Ireland;
- professional expenses increased by $7.1 million, or 189.0%, primarily as a result of transaction costs incurred on unsuccessful acquisition bids; and
- depreciation and amortisation expenses increased by $1.5 million or 135.6%.

3.8.2.1.3 Profit before tax

As a result of the above, Group profit before tax increased by $15.7 million from $33.3 million in CY2012 to $49.0 million in CY2013, an increase of 47.3%.

In 2013, Pepper's Australia and New Zealand Division commenced direct lending in the auto and equipment market (Pepper Asset Finance) and pre-tax losses in this business totalled $0.8 million in CY2013.

3.8.3 Pro Forma historical statements of cash flows: CY2013 compared to CY2012

Table 43 sets out the summary Pro Forma Historical Statements of Cash Flows for CY2013 and CY2012.

Table 43: Pro Forma historical statements of cash flows: CY2013 compared to CY2012

	Pro Forma historical			
$ millions	**CY2012**	**CY2013**	**Change**	**Change %**
Profit before tax	**33.3**	**49.0**	**15.7**	**47.3%**
Add back non-cash items:				
Depreciation and amortisation expenses	1.2	2.7	1.5	130.4%
Securitisation deal cost amortisation	2.1	3.8	1.7	79.9%
Upfront broker fee amortisation	2.4	4.7	2.3	91.8%
Management incentive expense	2.1	2.0	(0.1)	(2.4%)
Broker fees expenditure	(7.5)	(6.9)	0.6	(7.3%)
Arrangement fees expenditure	(2.5)	(6.9)	(4.4)	177.1%
Movement in working capital/balance sheet	0.9	13.4	12.5	Large
Operating cash flow before financing and taxation	**32.0**	**61.8**	**29.8**	**93.0%**
Capital expenditure	(2.7)	(5.2)	(2.5)	91.9%
Equity investment in Funding Vehicles	3.0	(21.0)	(24.0)	Large
Net cash flow before financing and taxation	**32.3**	**35.6**	**3.3**	**10.4%**
Net lending activities (South Korea and Spain)	–	24.7	24.7	nm
Net investing activity in Government securities (South Korea)	–	(75.0)	(75.0)	nm
Net cash flow before corporate financing and taxation	**32.3**	**(14.7)**	**(47.0)**	**(145.6%)**

The conversion of profit before tax to net cash flow before corporate financing activities and taxation in CY2013 versus CY2012 was driven by a number of factors including:

- movement in working capital/balance sheet increased from a $0.9 million cash inflow in CY2012 to a $13.4 million cash inflow in CY2013 primarily related to trade payable and accrual balance sheet movements subsequent to business acquisitions;
- equity investments in Funding Vehicles changed from a cash inflow of $3.0 million to a cash outflow of $21.0 million, reflecting growth in assets in Funding Vehicles which required injection of "first loss" capital, particularly Pepper's initial co-investments in third-party Servicing AUM in both Ireland and Spain to establish these initial platforms;
- net lending activities in South Korea and Spain experienced a net cash inflow of $24.7 million in CY2013 reflecting the sale of certain non-core assets in CY2013 following the acquisition of Evergreen Savings Bank in South Korea and the Hanul Bank portfolio; and
- net investing activities in Government securities (South Korea) had a net cash outflow of $75.0 million in CY2013, reflecting an investment of cash into liquid government securities as part of the Group's liquidity management strategy. The surplus cash, largely in the form of excess retail customer deposits, was initially gained on acquisition of the Evergreen Savings Bank and Hanul portfolio.

3.8.4 Pro Forma historical income statements: CY2014 compared to CY2013

Table 44 sets out the summary Pro Forma Historical Income Statements for CY2014 and CY2013.

Table 44: Pro Forma historical income statements: CY2014 compared to CY2013

	Pro Forma historical			
$ millions	**CY2013**	**CY2014**	**Change**	**Change %**
Lending income	61.0	83.6	22.6	37.0%
Loan origination fees	6.4	16.6	10.2	159.1%
Servicing and loan administration fees	70.8	114.3	43.5	61.4%
Advisory and other income	22.0	20.4	(1.6)	(7.3%)
Total income	**160.2**	**234.9**	**74.7**	**46.6%**
Share of profit from associate	–	–	n.a.	n.a.
Commission and direct marketing expenses	(4.7)	(13.7)	(9.0)	192.2%
Employee compensation and benefits expenses	(70.0)	(112.5)	(42.5)	60.6%
Occupancy expenses	(5.8)	(9.4)	(3.6)	63.5%
Professional expenses	(10.8)	(12.0)	(1.2)	10.5%
Depreciation and amortisation expenses	(2.7)	(6.3)	(3.6)	129.7%
General and administration expenses	(15.3)	(30.8)	(15.5)	101.2%
Corporate interest expense	(1.9)	(1.9)	–	–
Profit before tax	**49.0**	**48.3**	**(0.7)**	**(1.4%)**
Australia and New Zealand Division	55.8	57.1	1.3	2.3%
International Division	5.1	11.3	6.1	119.0%
Corporate Division	(11.9)	(20.1)	(8.2)	68.1%
Profit before tax	**49.0**	**48.3**	**(0.7)**	**(1.4%)**

3.8.4.1 CY2014 compared to CY2013 discussion

3.8.4.1.1 Total income

Total income increased by $74.7 million, from $160.2 million in CY2013 to $234.9 million in CY2014, an increase of 46.6% driven by:

- lending income increased by $22.6 million, from $61.0 million in CY2013 to $83.6 million in CY2014, an increase of 37.0%.
  - Australia and New Zealand Division lending income increased by $1.8 million from $58.5 million to $60.3 million, which was driven mainly by Lending AUM growth of $0.4 billion. Lending AUM growth was attributable to increases in non-conforming mortgages and Pepper prime mortgages while the GE Capital Australia and New Zealand acquired prime book continued to run-off;
  - International Division lending income increased by $20.8 million from $2.5 million to $23.3 million, primarily driven by the growth and full year contribution of the South Korean business which was the primary driver for International Division Lending AUM increasing by $109.9 million. CY2014 International Division lending income benefited from a number of transactions in South Korea, including the sale of non-performing loan portfolios which generated $4.0 million of income and $0.9 million of income from a sale and leaseback arrangement of Pepper's premises. There was also a material contribution to International Division lending income from investments in equity loan notes in Ireland alongside a $3.6 million gain on disposal of a co-investment in a third-party Funding Vehicle in Ireland;
- loan origination fees increased by $10.2 million, primarily driven by increased mortgage originations in the Australia and New Zealand Division across non-conforming mortgages and Pepper prime mortgages with total Australia and New Zealand Division originations of $1,452.5 million;

- servicing and loan administration fees increased by $43.5 million from $70.8 million in CY2013 to $114.3 million in CY2014, an increase of 61.4%.
  - Australia and New Zealand Division servicing and loan administration fees increased by $5.9 million with Servicing AUM growing moderately during the year;
  - International Division servicing and loan administration fees increased by $37.6 million from $40.8 million to $78.4 million, with broadly equal contributions from both Ireland and the United Kingdom (which contributed a full 12 months relative to a three month contribution in CY2013) driven by the continued success in gaining key contracts as International Division Servicing AUM increased by $14,346.4 million;
  - Total performance fees across the Group increased by $10.7 million, from $9.3 million in CY2013 to $20.0 million in CY2014. $16.1 million of fees were generated in the Australia and New Zealand Division of which $10.0 million of the performance fees were generated following the refinance of a Funding Vehicle that Pepper acquired as part of the GE Capital Australia and New Zealand mortgage acquisition and subsequently sold to third parties but which Pepper services and manages on behalf of those third parties. The refinance resulted in those investors achieving agreed portfolio return thresholds and accordingly Pepper received performance fees. The International Division contributed the remaining $3.9 million of performance fees for meeting agreed portfolio servicing benchmarks; and
- advisory and other income fell $1.6 million from $22.0 million in CY2013 to $20.4 million in CY2014, a decrease of 7.3%. The reduction was primarily attributable to lower income from Pepper Property Group and lower realised foreign exchange gains.

3.8.4.1.2 Expenses

Total expenses increased by $75.4 million, from $111.2 million in CY2013 to $186.6 million in CY2014, an increase of 67.8%. The major changes during the year are summarised as follows:

- employment compensation and benefits expenses increased by $42.5 million from $70.0 million to $112.5 million driven by a $6.2 million increase in the Australia and New Zealand Division, a $32.0 million increase in the International Division and a $4.3 million increase in the Corporate Division. The increase in the International Division was primarily due to costs associated with additional headcount and support for the onboarding of new loan servicing contracts in the United Kingdom and Ireland, increasing new loan originations in South Korea, as well as the full year contributions from United Kingdom and Spain. The Corporate Division continued to increase headcount in a range of central functions and at senior executive level to support the International Division expansion;
- commission and direct marketing expenses increased by $9.0 million from $4.7 million to $13.7 million with broker commissions growing for both Pepper non-conforming mortgages and prime mortgage originations and the utilisation of a team of DSRs in South Korea;
- occupancy expenses increased by $3.6 million from $5.8 million to $9.4 million while general and administration expenses increased by $15.5 million from $15.3 million to $30.8 million in line with business expansion across all regions in particular in Australia and Ireland;
- professional expenses increased by $1.2 million from $10.8 million to $12.0 million. This was primarily due to CY2013 including non-recurring professional advice costs associated with the unsuccessful acquisition bids being offset by an increase in costs related to audit, taxation and general legal matters associated with a full year ownership of entities acquired in CY2013; and
- depreciation and amortisation expenses increased by $3.6 million from $2.7 million to $6.3 million driven by continued expansion of the business and completed securitisation transactions.

3.8.4.1.3 Profit before tax

As a result of the factors above, Pepper's profit before tax decreased marginally by $0.7 million from $49.0 million in CY2013 to $48.3 million in CY2014, a decrease of 1.4%.

In CY2014, a conscious decision was taken by Management to invest into the business to generate long term growth. In relation to new lending business activities, pre-tax losses in the Pepper Asset Finance business increased from $0.8 million in CY2013 to $4.4 million in CY2014, while Pepper commenced investment in lending platforms in the United Kingdom and Spain. These businesses remained in development phase and Pepper incurred pre-tax losses associated with United Kingdom Lending totalling $1.5 million and Spain Lending totalling $2.8 million. Total pre-tax losses in connection with new lending activities in Pepper Asset Finance, the United Kingdom and Spain totalled $8.7 million.

3.8.5 Pro Forma historical statements of cash flows: CY2014 compared to CY2013

Table 45 sets out the summary Pro Forma Historical Statements of Cash Flows for CY2014 and CY2013.

Table 45: Pro Forma historical statements of cash flows: CY2014 compared to CY2013

	Pro Forma historical			
$ millions	**CY2013**	**CY2014**	**Change**	**Change %**
Profit before tax	**49.0**	**48.3**	**(0.7)**	**(1.4%)**
Add back non-cash items:				
Depreciation and amortisation expenses	2.7	6.3	3.6	134.8%
Securitisation deal cost amortisation	3.8	7.3	3.5	89.0%
Upfront broker fee amortisation	4.7	13.7	9.0	192.2%
Management incentive expense	2.0	2.0	–	–
Broker fees expenditure	(6.9)	(13.6)	(6.7)	96.0%
Arrangement fees expenditure	(6.9)	(10.5)	(3.6)	50.6%
Movement in working capital/balance sheet	13.4	3.7	(9.7)	(72.0%)
Operating cash flow before financing and taxation	**61.8**	**57.2**	**(4.6)**	**(7.3%)**
Capital expenditure	(5.2)	(7.4)	(2.2)	42.2%
Equity investment in Funding Vehicles	(21.0)	(0.1)	20.9	(99.4%)
Net cash flow before financing and taxation	**35.6**	**49.7**	**14.1**	**39.6%**
Net lending activities (South Korea and Spain)	24.7	(94.5)	(119.2)	(481.9%)
Net investing activities in Government securities (South Korea)	(75.0)	43.1	118.1	(157.4%)
Net cash flow before corporate financing and taxation	**(14.7)**	**(1.7)**	**13.0**	**(88.6%)**

The conversion of profit before tax to net cash flow before corporate financing and taxation in CY2014 versus CY2013 was driven by a number of factors including:

- increase in broker fees expenditure from $6.9 million to $13.6 million and arrangement fees expenditure from $6.9 million to $10.5 million, reflecting growth in originations and assets in Funding Vehicles;
- Equity investments in Funding Vehicles decreased from a $21.0 million outflow in CY2013 to a $0.1 million outflow in CY2014, reflecting a reduced requirement for Pepper to make "first loss" equity investments to secure new Servicing AUM in Ireland and Spain;
- net lending activities (South Korea and Spain) experienced a net cash outflow of $94.5 million in CY2014, driven by the ongoing expansion in the South Korean business and the commencement of lending activity in Spain. Net cash outflow in South Korea was driven by an increase in loan originations along with a fall in deposit balances as the Group sought to reprice deposit products to more appropriately reflect funding requirements. Cash flow associated with these lending activities continued to be funded from surplus cash, primarily in the form of excess retail customer deposits, initially acquired on acquisition of the Evergreen Savings Bank and Hanul portfolio in CY2013 in addition to sales of liquid Government securities (as set out immediately below); and
- net investing activities in Government securities had a net cash inflow of $43.1 million in CY2014, reflecting the sale of investments in Government securities to partially fund the increase in lending activity by Pepper Savings Bank.

3.9 Forecast Financial Information

The basis of preparation for the CY2015 Forecast Financial Information is detailed in Section 3.3.3. This section also includes the Directors' best estimate assumptions specific to the Forecast Period. In addition to these specific assumptions, the general assumptions adopted in preparing the Forecast Financial Information are detailed in Section 3.9.1.

3.9.1 General assumptions

In preparing the Forecast Financial Information, the following general assumptions have been adopted:

- there is no material change in the competitive and operating environments in which Pepper operates;
- there is no change in applicable AAS and IFRS that would have a material impact on Pepper's accounting policies or financial reporting disclosure requirements;
- there is no significant deviation from current market expectations of the broader economic conditions relevant to the sectors within the countries in which Pepper and its key customers operate;
- there is no material change in the legislative regime (including taxation) and regulatory environment in which Pepper and its customers operate;
- there are no material amendments to any material agreements relating to Pepper's business other than those disclosed in this Prospectus;
- there are no significant disruptions to the continuity of operations of Pepper and there are no material changes in Pepper's business other than those disclosed in this Prospectus;
- there are no material acquisitions completed;
- there are no material changes to Pepper's corporate and funding structure other than as set out in, or contemplated by, this Prospectus;
- there is no loss of key management personnel and Pepper will maintain the ongoing ability to recruit and retain required personnel;
- there is no material litigation that will arise or be settled to the benefit or detriment of Pepper, with the exception of the Ireland tax case referred to in Section 4.1.27;
- there are no contingent liabilities that will arise or be realised to the detriment of Pepper;
- the Offer proceeds are received in accordance with the timetable set out in this Prospectus; and
- none of the key risks set out in Section 5 occurs.

3.9.2 Directors' best estimate assumptions

The Forecast Financial Information has been prepared on the basis of the actual unaudited financial results for the two months to 28 February 2015 and Pepper's forecast for the 10 months ending 31 December 2015. Pepper's forecast for the 10 months ending 31 December 2015 also has regard to the current trading performance of Pepper up until the Prospectus Date.

The Forecast Financial Information is based on various assumptions, of which the key assumptions are set out below. The assumptions below are a summary only and do not represent all factors that will affect Pepper's forecast financial performance. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. It should be read in conjunction with the basis of preparation of the Forecast Financial Information as set out in Section 3.3.3, the general assumptions set out in Section 3.9.1 and the risk factors set out in Section 4.

3.9.2.1 Lending income

Pepper has forecast CY2015 lending income based on the following assumptions:

- Lending AUM for Pepper increases by $1,164.8 million to $5,347.8 million in CY2015, driven mainly by an increase in Australian mortgages, auto and equipment originations as well as South Korean mortgages and consumer loans;
- Australia and New Zealand Division lending income is expected to be driven by:
  - total Lending AUM growth of $472.5 million to $4,457.3 million, with non-conforming AUM growth influenced by increased competition in the market, strong growth in Pepper Prime AUM, offset by a continued run-off of the prime portfolio acquired from GE Capital;
  - loan repayment rates (also referred to as CPR speeds) in the existing non-conforming back book are expected to be slightly below CY2014 levels as initiatives implemented by Pepper to retain customers in late CY2014 take effect;
  - continued increases in average loan interest income margins (%) due to mix shifts as non-conforming mortgage assets and Pepper Asset Finance assets replace prime mortgages due to the run-off of the acquired GE Capital Australia and New Zealand prime book;
  - Pepper Asset Finance AUM is expected to grow to $512.0 million, driven by increased originations in the second half of CY2015 once origination processes are fully operational. Pepper has forecast average monthly originations of approximately $50 million across the second half of CY2015, versus expected monthly originations across the first half of CY2015 of $32 million, with growth focused on the auto broker channel and used cars where Pepper believes it has advantages versus competitors;
  - Pepper expects to undertake a mortgage Whole Loan Sale transaction in the second half of CY2015, where it anticipates to sell down its interest in a pool of non-conforming mortgage loans to a third-party investor;
  - Pepper has derived forecast loan loss and provisioning assumptions included in the lending income calculation based on a combination of product level analysis of historical performance where sufficient available data exists (Australian mortgage assets and South Korean loan assets) or by utilising industry norms where the business is in a start-up phase (auto and equipment, United Kingdom Lending and Spain Lending);
  - funding costs for the limited-recourse Funding Vehicles will reflect the Warehouse Facility arrangements or terms associated with the Term Securitisations or for the South Korean business costs of customer deposits it holds; and
- **in the International Division, lending income is expected to be generated by:**
  - Lending AUM growth from $198.2 million to $890.5 million, predominantly driven by assumed origination volumes of $820.6 million in South Korea following the hiring and training of approximately 196 additional DSRs, increased utilisation of customer deposits to fund loans, increased interest rates across the product portfolios and ongoing Whole Loan Sales of residential mortgage books in South Korea. Pepper has forecast an increase in average monthly originations from approximately $48 million in the first half of CY2015 to approximately $88 million in the second half of CY2015; and
  - Growth in lending AUM in Spain with originations assumed to increase to $113.5 million.

3.9.2.2 Loan origination fees

Loan origination fee income is forecast to rise consistently with the origination volumes in non-conforming mortgages, and to a lesser extent prime mortgages, in Australia. Total origination volumes in Australia are expected to be $1,989.7 million.

3.9.2.3 Servicing and loan administration fees

Servicing fee income is forecast to increase, primarily due to expected increases in Servicing AUM of $11.5 billion in CY2015 driven by:

- full year impacts of contracts that were onboarded in late CY2014;
- CPR speed assumptions for the servicing assets to remain broadly in line with CY2014 levels;
- in Ireland, four recently signed portfolios are scheduled to commence along with two further contracts that Management believes will be won due to previous portfolio wins and existing relationships with investors;
- in the United Kingdom, signing and onboarding of a portfolio won in CY2014, retention of portfolio servicing contract which is expected to be sold by its current owner resulting in termination fees plus ongoing income from the purchaser of the portfolio, and the winning of a further contract where Pepper has existing relationships with both bidders in the asset sale process.

Consistent with typical budgeting practice, Management has only included servicing performance fees in their forecast where there is a high degree of certainty that the fees will be earned, supported by current servicing performance. Management forecast $13.0 million of performance fees in CY2015 that is $7.0 million less than actual fees Pepper earned in CY2014. Performance fees by their nature are subject to future performance and unless they are assessed as highly likely to be received, Management does not include them in forecast figures.

Management expects that certain customers may sell their portfolios that Pepper services over the Forecast Period. Servicing contracts typically include exit fee arrangements, which compensate Pepper for early termination of contracts for reasons outside the control of Pepper. The CY2015 forecast includes a termination payment totalling $3.7 million in connection with the expected termination of a contract in the United Kingdom.

3.9.2.4 Advisory and other income

Income in the Pepper Property Group for CY2015 is expected to be higher than CY2014 with approximately 70% of forecast income already mandated, with the balance being determined as highly probable by Management. Pepper's advisory business is a small contributor to Group profit before tax due to the highly aligned nature of employee expenses and income in that business. Furthermore, Pepper Property Group has a high degree of variable costs, with costs largely reflecting revenue performance. Other income includes amounts expected to be generated by the services agreement with PrimeCredit, which are recognised in the Australia and New Zealand Division.

3.9.2.5 Share of profit from associate

Pepper completed the acquisition of a 12% equity stake in PrimeCredit during May 2015. The income is recognised in the Pro Forma Forecast Income Statement, adjusted to reflect a full year of income, as a share of profit from associate and is shown post tax. The post-tax share of profit includes provisional unaudited assessments of intangible asset valuation and amortization expense profiles of PrimeCredit.

3.9.2.6 Operating expenses

Operating expenses in CY2015 are expected to increase, largely reflecting the following assumptions:

- Higher commission and direct marketing expenses from increased originations particularly in Pepper Asset Finance where commission rates are typically higher. Mortgage broker commissions are also forecast to increase due to increased competition from other lenders;
- Higher employee compensation and benefits expenses to support business expansion specifically Australian mortgage staff for direct lending and customer retention, Pepper Asset Finance staff and risk staff, South Korean support staff and United Kingdom and Ireland servicing staff, as well as additional staff for United Kingdom Lending; and
- Other expenses increasing consistent with the growth of the business.

3.9.2.7 Income tax expense

Tax has been forecast based on the underlying rates in the countries that Pepper operates in. Use of tax losses in Ireland going forward has not been assumed.

3.9.2.8 Capital expenditure

Capital expenditure has been forecast to reflect the level of investment required to build, maintain and keep current the origination and servicing platforms the Group utilises, as well as respond to the increased demand for reporting and compliance frameworks as the business further develops.

3.9.2.9 Equity investments in Funding Vehicles

Equity investments in Funding Vehicles reflect the level of investment in the capital structure of originated, acquired or third-party serviced portfolios as required by the market or the regulators at the time of issue. Equity investments have grown substantially since 2012 in line with the growth in Lending AUM experienced by Pepper. While the business continues to grow, capital released as a Warehouse Facility or Term Securitisation runs off or matures is generally recycled into replacement vehicles or existing origination activities.

3.9.2.10 Regulatory capital requirements in relation to Pepper South Korea

Pepper expects to contribute an additional $22 million of regulatory capital into the Pepper South Korea business in CY2015 in order to support balance sheet growth. However, it is anticipated that by the end of CY2015, Pepper South Korea's Bank of International Settlements capital requirements will be self-funding via retained earnings growth and capital already deployed.

3.9.2.11 Foreign exchange

Pepper has an established hedging policy framework, although Pepper chooses not to currently hedge foreign currency against profits and losses or balance sheet movements. Pepper does hedge on an ad hoc basis, large acquisitions involving investments denominated in foreign currency. Pepper typically utilises such hedges to cover the period between the signing and closing of deals related to platforms of large portfolios involving co-investments. For the purpose of the CY2015 forecast, the Directors have assumed foreign exchange rates consistent with the recent average up to the date of the Prospectus as shown in Table 46.

Table 46: Foreign exchange assumptions in CY2015 against AUD

Currency	Assumption
GBP	0.5210
EUR	0.6901
USD	0.7800
KRW	869.7

3.10 Management discussion and analysis of the Forecast Financial Information

3.10.1 Pro Forma historical and forecast income statements: CY2015 compared to CY2014

Table 47 sets out the summary Pro Forma Forecast Income Statement for CY2015 and summary Pro Forma Historical Income Statement for CY2014.

Table 47: Pro Forma Historical and Forecast Income Statements: CY2015 compared to CY2014

	Pro Forma			
$ millions	**Historical CY2014**	**Forecast CY2015**	**Change**	**Change %**
Lending income	83.6	110.0	26.4	31.6%
Loan origination fees	16.6	21.5	4.9	29.4%
Servicing and loan administration fees	114.3	152.5	38.2	33.4%
Advisory and other income	20.4	20.0	(0.4)	(1.8%)
Total income	**234.9**	**304.0**	**69.1**	**29.4%**
Share of profit from associate	–	5.0	5.0	n.m.
Commission and direct marketing expenses	(13.7)	(27.0)	(13.3)	96.9%
Employee compensation and benefits expenses	(112.5)	(159.4)	(46.9)	41.7%
Occupancy expenses	(9.4)	(12.9)	(3.5)	36.7%
Professional expenses	(12.0)	(10.2)	1.8	(14.6%)
Depreciation and amortisation expenses	(6.3)	(8.8)	(2.5)	40.3%
General and administration expenses	(30.8)	(32.1)	(1.3)	4.2%
Corporate interest expense	(1.9)	(1.9)	–	–
Profit before tax	**48.3**	**56.7**	**8.4**	**17.3%**
Australia and New Zealand Division	57.1	48.9	(8.2)	(14.3%)
International Division	11.3	32.6	21.3	189.6%
Corporate Division	(20.1)	(24.8)	(4.7)	24.1%
Profit before tax	**48.3**	**56.7**	**8.4**	**17.3%**

3.10.1.1 Total income

Total income is forecast to increase by $69.1 million, from $234.9 million in CY2014 to $304.0 million in CY2015, an increase of 29.4%. A summary of the key factors affecting Pepper's growth in CY2015 is set out below:

- lending income is forecast to increase by $26.4 million, from $83.6 million in CY2014 to $110.0 million in CY2015, an increase of 31.6%.
  - Australia and New Zealand Division lending income is forecast to increase by $12.2 million, driven by growth in lending income from mortgages (up $3.9 million) and Pepper Asset Finance (up $8.4 million). While non-conforming mortgage AUM continues to grow, the contribution to lending income growth is less material as strong origination volumes are offset by sustained high rates of customer repayment. Pepper also expects to generate $5.6 million via a Whole Loan Sale transaction in the Australia and New Zealand Division in CY2015; and
  - International Division lending income is forecast to increase by $14.2 million, driven mainly by an increase in income contribution of $15.8 million in South Korea from $481.0 million of Lending AUM growth. South Korea is forecast to achieve profitability on a pre-tax profit basis in CY2015 and originating approximately $88 million on a monthly basis in the second half of CY2015. International Division lending income is also expected to see an increase of $4.0 million in income from Spain Lending where originations are forecast to reach $113.5 million, offset by total losses in the United Kingdom of $1.2 million due to funding costs, including Warehouse Facility fees, incurred prior to the lending business launch in June 2015;
- loan origination fees are expected to increase by $4.9 million, from $16.6 million in CY2014 to $21.5 million in CY2015, an increase of 29.4%, primarily driven by increased originations in Australia which increase significantly as compared to CY2014;
- servicing and loan administration fees are expected to increase by $38.2 million from $114.3 million in CY2014 to $152.5 million in CY2015, an increase of 33.4%. The increase is driven by Servicing AUM growth which is forecast to increase by $11.5 billion from $24.4 billion to $35.9 billion, predominantly in the International Division as the United Kingdom and Ireland are expected to continue to win servicing contracts.
  - in the International Division, servicing and loan administration fees are expected to increase by $40.9 million to $119.3 million. Pepper's existing servicing contracts are forecast to contribute an additional $4.0 million versus CY2014 while a further $25.4 million of the expected increase is derived from new contracts that have been already signed in CY2015. The remaining $11.5 million of forecast incremental income represents new contracts that have not been signed but which Management expects to win from a pipeline of identified opportunities;
  - growth in servicing fees also includes the benefit of $3.7 million of expected exit fees in the United Kingdom where Pepper anticipates certain customers to terminate contracts early due to early asset sales, along with $3.9 million of performance fees included for Ireland. Growth in servicing fees more than offsets the loss of income from the run-off of existing portfolios serviced by Pepper;
  - management forecasts $13.0 million of performance fees in CY2015 which is $7.0 million less than Pepper earned in CY2014 and is expected to be split $9.1 million from the Australia and New Zealand Division and $3.9 million from the International Division; and
- advisory and other income is expected to decrease by $0.4 million from $20.4 million in CY2014 to $20.0 million in CY2015, mainly due to an incremental $4.2 million in connection with the management fee recognised by Australia from the management services provided to the PrimeCredit business, offset by the decline in foreign exchange gains and the impact of the restructure of a non-wholly owned subsidiary which has decreased reported other income in CY2015 compared to CY2014 by $1.6 million.

3.10.1.2 Share of profit from associate

Share of profit from associate is a new income item totalling $5.0 million in CY2015, representing the share of NPAT in connection with Pepper's 12% equity stake in PrimeCredit, adjusted to reflect a full year of ownership.

3.10.1.3 Expenses

Total expenses are expected to increase by $65.7 million, from $186.6 million in CY2014 to $252.3 million in CY2015, an increase of 35.2%. A summary of the major changes during the year is as follows:

- commission and direct marketing expenses are expected to increase by $13.3 million from $13.7 million in CY2014 to $27.0 million in CY2015, an increase of 96.9%. The Australia and New Zealand Division is expected to account for $10.6 million of the increase driven by increased commissions in connection with mortgage originations, where Pepper has elected to increase the broker commission rate to respond to growing competition for non-conforming customers, along with a mix shift towards originations by Pepper Asset Finance which typically attract higher broker commission rates, and new investment in Pepper direct-to-consumer marketing initiatives including website development and sponsorship. The increase in the International Division is consistent with the increased growth in South Korea where the direct sales force is expected to increase by approximately 196 DSRs who are predominantly remunerated on a commission basis;
- employment compensation and benefits expenses are expected to increase by $46.9 million from $112.5 million in CY2014 to $159.4 million in CY2015, an increase of 41.7%. In Australia and New Zealand, there is expected to be an increase in expenses of $12.7 million from $38.5 million to $51.2 million due to increased headcount in order to support the ramp-up of Pepper Asset Finance as well as investments in an offshore service centre to support the Australian mortgage operations. An increase in the International Division is expected, spread across the United Kingdom, Ireland and South Korea due to the increased scale of the businesses;
- occupancy expenses are expected to increase by $3.5 million from $9.4 million in CY2014 to $12.9 million in CY2015 while general and administration expenses are expected to increase by $1.3 million from $30.8 million in CY2014 to $32.1 million in CY2015 due to continued business expansion; and
- professional expenses are expected to decrease by $1.8 million from $12.0 million in CY2014 to $10.2 million in CY2015. This represents a reduction in reported expense on this line compared to CY2014 of $1.6 million associated with the restructure of a non-wholly owned subsidiary.

3.10.1.4 Profit before tax

As a result of the factors described above, Pepper's pre-tax profit in CY2015 is expected to increase by $8.4 million from $48.3 million to $56.7 million, an increase of 17.3%. There is expected to be a greater profit before tax contribution from the second half of the calendar year than the first half, reflecting the ramp-up in originations in Pepper South Korea and Pepper Asset Finance in addition to continued growth in both Lending AUM and Servicing AUM that is expected to be achieved during CY2015.

In relation to new lending activities, losses in the Pepper Asset Finance business are expected to increase from $4.4 million in CY2014 to $4.8 million in CY2015. However, the business is expected to approach breakeven performance on a monthly basis by the end of CY2015, reflecting the expected growth in originations for that business to $50 million of monthly origination volumes in the second half of CY2015 from $32 million in the first half. Pre-tax losses in Pepper United Kingdom Lending are forecast to reach $3.5 million and pre-tax losses in Spain Lending total $2.1 million.

Total forecast losses in connection with Pepper Asset Finance, United Kingdom Lending and Spain Lending are expected to total $10.4 million in CY2015. Pepper also expects to invest $3.0 million in the Pepper Direct initiative which is expected to drive growth in mortgage volumes in Australia.

3.10.2 Pro Forma historical and forecast statements of cash flows: CY2015 compared to CY2014

Table 48 sets out the summary Pro Forma Forecast Cash Flows for CY2015 and Pro Forma Historical Cash Flows for CY2014.

Table 48: Pro Forma historical statements of cash flows: CY2015 compared to CY2014

	Pro Forma historical			
$ millions	**CY2014**	**CY2015**	**Change**	**Change %**
Profit before tax	**48.3**	**56.7**	**8.4**	**17.3%**
Add back non-cash items:				
Depreciation and amortisation expenses	6.3	8.8	2.5	40.3%
Securitisation deal cost amortisation	7.3	7.2	(0.1)	(0.5%)
Upfront broker fee amortisation	13.7	19.5	5.8	42.1%
Management incentive expense	2.0	2.0	–	–
Share of profit from associate	–	(5.0)	(5.0)	n.m.
Broker fees expenditure	(13.6)	(39.0)	(25.4)	187.2%
Arrangement fees expenditure	(10.5)	(11.6)	(1.1)	10.8%
Movement in working capital/balance sheet	3.7	0.3	(3.4)	(92.3%)
Operating cash flow before financing and taxation	**57.2**	**38.9**	**(18.3)**	**(31.9%)**
Capital expenditure	(7.4)	(9.7)	(2.3)	30.7%
Equity investment in Funding Vehicles	(0.1)	0.1	0.2	(180.1%)
Net cash flow before financing and taxation	**49.7**	**29.3**	**(20.4)**	**(40.9%)**
Net lending activities (South Korea and Spain)	(94.5)	(124.8)	(30.3)	32.1%
Net investing activities in Government securities (South Korea)	43.1	69.1	26.0	60.3%
Net cash flow before corporate financing and taxation	**(1.7)**	**(26.4)**	**(24.7)**	**Large**

The forecast conversion of profit before tax to net cash flow before corporate financing and taxation in CY2015 versus CY2014 is expected to be driven by:

- increase in broker expenditure from a $13.6 million outflow in CY2014 to a $39.0 million outflow CY2015 primarily driven by increased commission payments to South Korean DSRs in connection with higher South Korean originations, additional trailing broker fees in Australia and higher broker commissions in Pepper Asset Finance reflecting a higher margin nature of the product;
- adjustment to reflect the non-cash nature of the share of profit from associate of $5.0 million which reflects the impact of the PrimeCredit acquisition;
- net lending activities (South Korea and Spain) in CY2015 are expected to result in a cash outflow of $124.8 million, an increase of $30.3 million from CY2014. New loan origination balances are forecast to increase by $481.0 million in South Korea, to be funded from both the liquidity portfolio and deposits. The strategy to build the portfolio utilising acquired cash and liquid government securities is expected to deliver a portfolio by the end of CY2015 that will be self-funding with the proposed deposit strategy and requiring no additional equity injection from the Group. In CY2015, the on-balance sheet funding requirement of lending growth in Spain is anticipated to be $11.8 million; and
- net investing activities in Government securities (South Korea) in CY2015 are expected to be a net cash inflow of $69.1 million, representing an increase of $26.0 million from CY2014. With excess customer deposits over customer loans, Pepper South Korea places its excess funds mostly in deposit accounts of the Mutual Savings Bank Federation. It also utilises various deposit facilities from large national banks as well as buying/selling guaranteed government securities for short term purposes.

3.11 Sensitivity analysis

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Pepper, its Directors and Management, and depends upon assumptions with respect to future business developments, which are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the forecasts, set out below is a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. For the purpose of the analysis below, the effect of the changes in key assumptions on the CY2015 Pro Forma forecast NPAT of $43.5 million is presented.

The sensitivity for CY2015 NPAT only represents changes to assumptions for the full year period from 1 January 2015 to 31 December 2015.

The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the ranges shown.

Table 49: Sensitivity analysis on Pro Forma forecast NPAT for CY2015

Assumption	Note	Variance	CY2015 NPAT impact ($ millions)
Income			
Financing costs in Funding Vehicles	*1*	+/– 10bps	–/+ 2.8
Loan origination volumes	*2*	+/– 5%	+/- 1.5
Limited-recourse Funding Vehicle loan loss rates	*3*	+/– 5 bps	–/+ 1.1
On-balance sheet loan loss rates	*4*	+/– 20bps	–/+ 1.2
Loan prepayment rates	*5*	+/– 1%	+/- 0.7
Servicing volumes	*6*	+/– 1%	+/- 0.2
Operating expenses			
Number of full-time employees	*7*	+/– 5%	+/- 1.3
Broker commissions	*8*	+/– 10bps	+/- 0.4
Other			
Change in AUD:EUR exchange rate		+/– 5%	–/+ 0.7
Change in AUD:GBP exchange rate		+/– 5%	–/+ 0.4

Notes:

1. *Impact of increase or decrease in the financing costs paid in limited-recourse Funding Vehicles and on deposits held, assuming that all other origination metrics remain unchanged.*
2. *Impact of an increase or decrease in the dollar value of forecast loan origination volumes, assuming all other factors remain unchanged.*
3. *Impact of an increase or decrease in Pepper's average loan loss rate across Pepper-originated limited-recourse Funding Vehicles (both for Warehouse Facilities and Term Securitisations) assuming all other factors remain unchanged.*
4. *Impact of an increase or decrease in Pepper's average loan loss rate across on-balance sheet loans, assuming all other factors remain unchanged.*
5. *Impact of an increase or decrease in the average rate of loan principal paid off on an annual basis across all Pepper-originated limited-recourse Funding Vehicles (both Term Securitisation and Warehouse Facility) and on-balance sheet originations assuming all other factors remained unchanged.*
6. *Impact of an increase or decrease in the total value of third-party servicing assets under Pepper's management, assuming all other factors remain unchanged.*
7. *Impact of an increase or decrease relative to the incremental growth of full-time equivalent employees assumed in the CY2015 Pro Forma forecast NPAT.*
8. *Impact of the increase or decrease in the rate of broker commissions relative to the loan value on the CY2015 Pro Forma forecast broker fees amortisation expense profile. Rate variability is influenced by the weighted average mix of the distribution channel and product mix.*

3.12 Dividend policy

Subject to future business conditions, available profits and franking credits and the financial position of Pepper, it is the current intention of the Board to pay dividends.

Assuming a CY2015 result consistent with the Forecast Financial Information, the Directors anticipate the first dividend will be determined in respect of the half year ending 31 December 2015, and will be 3 cents per Share payable in March 2016. It is currently expected that dividends will be fully franked.

Thereafter, it is the current intention of the Board to increase dividends broadly in line with the growth in Adjusted NPAT.

No assurances can be given by any person, including the Directors, about the payment of dividends and the level of franking on such dividends. Please read the Forecast Financial Information as set out in this Section 3 and the risk factors as set out in Section 4.

The Corporate Debt Facilities cap the ability for the Company to pay any dividend at 100% of the Cash NPAT (as defined in the Corporate Debt Facilities, being the statutory NPAT adjusted (i.e. adding back) for one-off expenses, depreciation expenses, and amortisation of Intangibles (including impairment of Intangibles), as derived from the latest financial statements, for the immediately preceding year. Under the Board's current intended dividend policy, the Company does not consider this to be a material limitation.

04.

Key Risks

04. KEY RISKS

Pepper is subject to risk factors that are specific to its business activities and those of a more general nature. Any, or a combination, of these risk factors may have a material adverse impact on Pepper's business, operating and financial performance. This section describes some of the potential risks associated with Pepper's business and an investment in its Shares. It does not purport to list every risk that may be associated with an investment in Shares now or in the future, and the occurrence of consequences of some of the risks described in this section are partially or completely outside the control of Pepper, its Directors and Management team.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and impact of the risk if it did occur. The assessment is based on the knowledge of the Directors as at the date of the Prospectus, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of these matters and should consider whether Shares are a suitable investment for you, having regard to your own investment objectives, financial situation and particular needs (including financial and taxation issues). If you do not understand any part of this Prospectus or are in any doubt as to whether to invest in Shares, it is recommended that you seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

4.1 Specific risks to an investment in Pepper

4.1.1 Inability to access funding or less favourable terms

Pepper's funding platform currently comprises a mix of Warehouse Facilities, Term Securitisations, Corporate Debt Facilities, balance sheet cash and, in the case of Pepper South Korea, customer deposits, each as described in Section 2.7. Across its various markets, Pepper depends on these sources to fund mortgage and consumer loan originations and therefore faces funding risks. As detailed below, a loss of or adverse impact on or in relation to one or more of Pepper's funding sources, without access to alternative funding sources, could limit Pepper's ability to write new business or to write business on favourable terms, or to refinance expiring Warehouse Facilities, which could have a materially adverse effect on Pepper's business, operating and financial performance.

Warehousing Facilities and Term Securitisations

There is a risk that a default or other event under Pepper's Warehouse Facilities and Term Securitisations may impact the profitability, financial position and prospects of Pepper. A default or other event may arise from Pepper's breach of its origination, servicing or management obligations or may arise from factors outside Pepper's control, such as a deterioration in the credit quality or performance of the pool of loans funded under the relevant Warehouse Facility or Term Securitisation. Any such default or other event could have a number of impacts, depending on the severity of the default or other event concerned, including:

- a condition precedent to funding under a Warehouse Facility may not be satisfied, or "stop funding" or "stop origination" event may occur under a Warehouse Facility, resulting in Pepper being unable to draw on the Warehouse Facility to originate new loans until the event is remedied;
- the relevant Funding Vehicles' residual income may be trapped in the Funding Vehicle and used to repurchase or pay down senior ranking obligations until the event is remedied;
- a more serious event may cause a forced amortisation event. Under a forced amortisation event, the obligation of funders to provide any further funding is terminated, the interest rates accruing on senior notes may increase, and residual income is trapped in the trust until senior ranking debtors are repaid or the event is remedied. Senior financers may also have the option to replace Pepper as servicer and manager;
- if an event of default occurs, in addition to the consequences of a forced amortisation event, senior lenders may force Pepper to retire as servicer and manager, and may enforce their security over and sell the pool of loans held by the relevant Funding Vehicle; and/or
- Pepper may have to incur certain liabilities as detailed below.

There is also a risk that Pepper is not able to renew a Warehouse Facility when due for renewal, which is typically annually. This could materially impact Pepper's ability to fund new loans, potentially materially adversely affecting Pepper's business, operating and financial performance and, if Pepper is unable to refinance the relevant Warehouse Facility through an alternative Warehouse Facility or Term Securitisation, lead to an event of default under the relevant Warehouse Facility with the consequences referred to above.

There is also a risk that Pepper may be restricted from refinancing an existing Warehouse Facility through a Term Securitisation because it is unable to obtain the consent of the Warehouse Facility funders and/or because of general market conditions in the capital markets. This could materially adversely affect Pepper's business, operating and financial performance.

Deposits

Pepper is currently dependent on deposit funding in South Korea. There is a risk that reputational damage, a change in government deposit insurance or general market conditions could lead to depositors withdrawing their money or requiring a substantial increase in deposit rates to retain them.

This could result in a funding gap that would need to be addressed by accessing funding in the wholesale markets (provided that such funding were to be available) which is likely to be a more expensive form of funding for the Company than deposit-based funding. If Pepper South Korea was unable to access wholesale funding, there is a risk that it may not be able to repay deposits in the absence of a capital contribution from Pepper. This could have a materially adverse effect on Pepper's business, operating and financial performance.

Corporate Debt Facilities

There is a risk that, due to an event of default (which includes a breach of financial covenant), review event or other events, one (or more) of Pepper's corporate debt providers either demands repayment and cancels the facility provided by it, fails to renew its facility following its maturity, or renews the facility only in part or on less favourable terms.

As a result, Pepper is subject to a risk that it may be unable to refinance its Corporate Debt Facilities upon acceleration or maturity, or is unable to do so on as favourable terms, and consequently may face greater funding costs or be unable to obtain sufficient facilities to fund its growth activities, which could materially adversely affect its business, operating and financial performance.

4.1.2 Regulatory and licence compliance

Regulatory risks

Pepper is subject to extensive regulation in each of the jurisdictions in which it conducts its business. Changes in law or regulation in a market in which Pepper operates could materially impact the business.

Pepper's business activities in Australia are primarily regulated by ASIC and under the Corporations Act, the *Australian Securities and Investments Act 2001* (Cth), the NCCP Act and the *National Credit Code*. Pepper is also subject to other legislation, including (but not limited to) the *Privacy Act 1998* (Cth), the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth), the *Competition and Consumer Act 2010* (Cth), and the *Privacy (Credit Reporting) Code 2014*. Pepper's overseas business activities are primarily regulated by the Central Bank of Ireland (in Ireland), the Financial Conduct Authority (in the United Kingdom), the Spanish Ministry of Justice (in Spain) and the FSC, the Financial Supervisory Service, the Bank of Korea and the Korea Deposit Insurance Corporation (in South Korea). PrimeCredit is regulated as a money lender in Hong Kong and as a microfinance company in Shenzhen, China.

There is a risk that Pepper could face legal or regulatory sanctions or reputational damage as a result of any failure to comply with (or comply with developing interpretations of) applicable laws, regulations, codes of conduct and standards of good practice, including in relation to responsible lending. A breach in any of these areas could result in fines or penalties, the payment of compensation or the cancellation or suspension of Pepper's ability to carry on certain of its activities or businesses which could materially adversely affect Pepper's business, operating and financial performance.

Pepper's business, operating or financial performance may also be adversely affected by the impact of laws on the enforceability of its loans or related security. For example, changes to (or to the interpretation of) the law of penalties could result in contractual stipulations such as late payment, dishonour and over-limit fees being unenforceable or a failure of the Group to correctly register security interests on relevant security interest registers, within the relevant timeframes or at all, could result in those security interests being unenforceable, and Pepper's loans or related security could be adversely affected in other ways by non-compliance with laws or regulatory requirements. Such events or circumstances may materially adversely affect Pepper's business, operating or financial performance either directly through Pepper's exposure to the performance of its portfolio (see Section 4.1.3) or origination of future loans or indirectly through liabilities it may have to its Funding Vehicles (or third-party portfolio owners) in connection with the origination or servicing of loans (see Section 4.1.22 or 4.1.26).

In particular, Pepper is regulated by the NCCP Act and the *National Credit Code* in relation to its consumer lending and home loan activities. The NCCP Act imposes obligations on Pepper, as a licensee under the NCCP Act, in respect of its consumer lending and other consumer credit activities. For example, Pepper has to comply with statutory obligations in relation to responsible lending, disclosure and enforcement. It needs to maintain robust internal processes to ensure it complies with these obligations. There is a risk that Pepper will be subject to civil penalties if it does not comply or may be unable to recover fees, charges and interest or enforce its security, and there may be consequences as referred to above both for the performance of its portfolio and its future origination activities and also arising from liabilities to Funding Vehicles.

Licensing risks

Pepper is licensed and/or registered to operate a number of its services across a range of jurisdictions. Changes to these licensing regimes, the revocation of existing licences, an inability to renew or receive necessary licences or the imposition of capital requirements could materially adversely affect Pepper's business, operating and financial performance.

If any of the Group licence holders do not comply with the conditions of their licences or meet other regulatory requirements, that entity could be subject to penalties, more onerous licence conditions, the imposition of licence restrictions or the loss of that licence.

Pepper's business activities in Australia require it to hold Australian Financial Services Licences and Australian Credit Licences. Compliance with the requirements of an Australian Financial Services Licence or an Australian Credit Licence is the responsibility of the licensee. Pepper's overseas business activities require it to be registered with the Central Bank of Ireland (in Ireland), registered with the Financial Conduct Authority (in the United Kingdom), registered under Law 2/2009, of March 31 (in Spain) and be licensed under the Mutual Savings Bank Act (in South Korea). PrimeCredit is regulated as a money lender in Hong Kong and as a microfinance company in Shenzhen, China.

If any Group company is unable to retain its current licences and/or registrations, Pepper may not be able to continue to operate its business, or aspects of its business, in the current form. Additionally, the loss of certain licences or registrations would impact Pepper's ability to offer securitisation services. If this occurred, Pepper would be required to seek funding from alternative sources. This could materially adversely affect Pepper's business, operating and financial performance.

4.1.3 Capital and liquidity requirements

There is a risk that Pepper could be required to contribute additional "first loss" equity capital to support the credit position of senior ranking noteholders in Pepper Warehouse Facilities and Term Securitisations, and could be required to contribute additional capital to support the regulatory capital requirements or business needs of Pepper South Korea, which could impact Pepper's profitability, ability to grow and/or could force it to raise additional capital.

As part of Pepper's funding arrangements, it is required to contribute an amount of "first loss" equity capital to the trusts to provide credit enhancement to the higher-ranking debt tranches provided by banks and/or other noteholders and to meet other requirements as set out in Section 2.7. The amount of "first loss" capital that Pepper is required to hold varies depending on the credit quality and historic performance of the collateral in the trusts, whether the trust is bank or capital markets funded, the internal credit and other requirements of banks, noteholders and rating agencies and local regulations. "First loss" equity in Pepper's Warehouse Facilities and Term Securitisations varies but is generally between 2% and 5%.

If the losses on loans in the Funding Vehicles are sufficiently high, this will result in the erosion of required "first loss" capital positions. While Pepper generally has no obligation to provide additional capital to support Warehouse Facilities or Term Securitisations, it may be appropriate to do so to support ongoing access to bank and capital market funding and to ensure access to distributions of surplus income of the relevant Funding Vehicle on an ongoing basis. There is also a risk that local regulators could implement new or increased requirements that would oblige the inclusion of, or increase in, a minimum level of "first loss" capital in securitisations that exceeds the level of capital in Pepper's trusts, which could force it to raise additional capital which could materially adversely affect Pepper's business, operating and financial performance. Such legislation has been considered as part of amendments to the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (US). However, this would only affect future securitisations and would apply to US investors in Pepper securitisations.

Pepper must hold regulatory capital against its assets in South Korea. The quantum of regulatory capital held against Pepper South Korea loan books is determined in accordance with the Bank for International Settlements prudential requirements. Based on its asset size and prudential capital requirement, Pepper is currently required to maintain a minimum Bank for International Settlements capital ratio of 6.0% (expected to rise to 7.0% from 1 July 2016).

If the capital ratio falls below the required Bank for International Settlements level, the FSC may require that corrective action be taken (including a capital injection), and if such action is not taken within the period specified by the FSC, the FSC may make administrative orders including to suspend the business' operations, inject additional capital to raise the Bank for International Settlements ratio, sell shares to a third-party, transfer the asset and debt to another party, or take such other actions which are deemed by the FSC as necessary. Capital levels are required to be reported on a quarterly basis. Pepper Savings Bank has adopted a capital management strategy in which it aims to maintain a minimum level of 6.5% at each month end and 7.0% at the end of each quarter, in compliance with the regulatory prescribed levels.

The following are three types of corrective action which the FSC may require if the Bank of International Settlements capital ratio falls below certain levels:

- if the Bank for International Settlements capital ratio falls to between 4.0% (expected to rise to 5.0% from 1 July 2016) and 6.0% (expected to rise to 7.0% from 1 July 2016), the FSC will make a "management improvement recommendation" to take necessary measures, including but not limited to:
  - (i) improvement in personnel management and organisational operation;
  - (ii) cost reduction; and/or
  - (iii) increases in, or reductions of, paid-in capital.
- if the Bank for International Settlements capital ratio falls to between 1.5% (expected to rise to 2.0% from 1 July 2016) and 4.0% (expected to rise to 5.0% from 1 July 2016), the FSC will issue a "management improvement requirement" to take necessary measures, including but not limited to:
  - (i) closure or consolidation of exiting branch offices or restriction on the establishment of new branch offices;
  - (ii) downsizing of the organisation;
  - (iii) partial suspension of business operation; and/or
  - (iv) any measures which may be taken as "management improvement recommendation".
- if the Bank for International Settlements capital ratio falls under 1.5% (expected to rise to 2.0% from 1 July 2016), the FSC will issue a "management improvement order" to take necessary measures, including but not limited to:
  - (i) transfer of all or part of business;
  - (ii) suspension of business for within a six (6) months period;
  - (iii) transfer of all or part of contracts; and/or
  - (iv) any measures which may be taken as "management improvement requirement".

Pepper Savings Bank is also required to maintain a liquidity ratio of above 100%. The liquidity ratio is calculated as A/B where:

- A is liquid assets – being any of the following with remaining maturity of not more than three months: provided that those under subparagraphs (i), (iii) (limited to listed securities) and (iv) shall be included, irrespective of the maturity:
  - (i) cash;
  - (ii) deposits with third parties;
  - (iii) securities (limited to those classified as "normal" and "precautionary" as a result of the classification of asset soundness);
  - (iv) reserve deposits with the Korea Federation of Savings Banks; and
  - (v) loans (including call loans, but limited to those classified as "normal" and "precautionary" as a result of the classification of asset soundness); and
- B is liquid liabilities – being any of the following with remaining maturity of not more than three months: provided that those under subparagraph (i) shall be included, irrespective of the maturity):
  - (i) deposits received from customers (depositors) by Pepper Savings Bank;
  - (ii) borrowings (including call money); and
  - (iii) bonds.

In the event, a large shareholder of a mutual savings bank, such as Pepper South Korea, causes the insolvency of the bank as a consequence of its influence on its business management, that large shareholder may be jointly liable with the bank for the debts of the bank related to (i) deposits received by the bank and (ii) commercial papers issued by the bank for the purpose of carrying out its business as a mutual savings bank. However, a shareholder should not be held liable unless it can be shown that the shareholder caused the insolvency of the mutual savings bank (e.g. by violating laws, directing loans to itself or affiliated entities, etc).

4.1.4 Liabilities in relation to Funding Vehicles, including with respect to its originating, servicing, trustee, or trust management contracts

There is a risk that Pepper is required to repurchase loan assets from, or to contribute collateral equal to the amount of loan assets into, its Warehouse Facilities and Term Securitisations as a consequence of breaching certain representations or obligations relating to those loan assets, including with respect to eligibility of the assets to be held within the relevant Warehouse Facility or Term Securitisation under the terms of that arrangement. Pepper also provides indemnities to the trustees of its Funding Vehicles in respect of losses arising from its negligence or breach of its origination, servicing or management obligations, and in respect of certain other matters. Pepper Finance Corporation Limited as trustee of certain Funding Vehicles, has the benefit of limitation of liability and indemnification out of the trust assets. This protection may be limited as a result of the trustee's fraud, negligence or wilful misconduct in relation to the trusts, or otherwise by operation of law.

Although such breaches and related liabilities may from time to time arise in the ordinary course of the business of the Group, Pepper is not aware of any subsisting breach or other circumstance which it considers likely to give rise to a material liability. However, should any such obligation or liability emerge, they may materially adversely affect Pepper's profitability and financial position and prospects.

4.1.5 Early termination or non-renewal of servicing contracts

There is a risk that Pepper's servicing contracts could be terminated early due to the occurrence of a number of events, including failure by Pepper to meet the service requirements specified in the contract, sale of the loan portfolio by the owner, or the contract may not be renewed at the current maturity date. Servicing contracts in respect of pools of loans subject to Warehouse Facilities or Term Securitisations may also be terminated in the event of defaults or other circumstances occurring in respect of the relevant Warehouse Facilities or Term Securitisations, and some servicing contracts may be terminated at the election of the relevant counterparty without cause subject to a minimum period of notice. While early termination in some third-party servicing contracts may give rise to termination payments for Pepper's benefit, early termination of contracts could materially adversely affect the financial performance of Pepper.

4.1.6 Portfolio performance

Pepper generates income from, among other things, the ownership of residual income units and Equity Notes in its Warehouse Facilities and Term Securitisations (or Funding Vehicle), where income is distributed net of credit losses on the underlying pool of mortgages or other loans. An increase in credit losses on the underlying loans caused by borrower defaults will reduce the income available to the Funding Vehicle to pay its expenses, interest costs and, at the bottom of the cash flow waterfall, distributions to Pepper. Pepper's right to receive income from a Funding Vehicle is subordinated to the rights to income of senior ranking funders or noteholders, who make up the vast majority of the funding of the Funding Vehicles. As a result, Pepper's income from the Funding Vehicles and value of Equity Notes in the Funding Vehicles, will decline by the full amount of any credit losses experienced until the equity notes are fully absorbed. Changes in losses on the overall pool of loans will have a larger relative impact on Pepper's distribution from the Funding Vehicles due to the relatively large amount of third-party funding used in the Funding Vehicles which contractually receives priority over distributions to Pepper. While credit losses on Pepper's mortgages have been low historically and are factored into Pepper's financial forecasts, there is a risk that credit losses on Pepper's loan portfolio could increase which would reduce Pepper's lending income.

As described above, there is also a risk that pools of loans in Pepper's Warehouse Facilities or Term Securitisations trusts experience losses at a level which results in a loss of the "first loss" capital contributed by Pepper to such arrangements, and/or on a call being made on certain limited guarantees which Pepper has provided in respect of some of those arrangements. Losses on pools of loans above certain levels may also result in Pepper's appointment as manager or servicer of such transactions those arrangements being terminated, resulting in a loss of the income Pepper receives from providing these services.

Accordingly, Pepper is exposed to the performance of the relevant portfolios which are in turn affected by a range of events outside Pepper's control which may include changes to interest rates or levels of unemployment and deterioration of economic conditions.

Through its ownership of Pepper Savings Bank in South Korea, Pepper originates and holds loans on-balance sheet (including loans that were acquired with the business) and Pepper is therefore fully exposed to the credit losses on those loans. An increase in credit losses on these facilities will adversely impact Pepper's financial performance and position, and may require Pepper to contribute additional capital to support the capital needs of its subsidiary.

4.1.7 Reputational matters

Pepper relies heavily on its reputation in the day-to-day running of its business. Pepper manages risks relating to legal and regulatory requirements, responsible lending and sales practices, potential conflicts of interest, privacy laws and ethical issues, among other considerations, which may cause harm to its reputation. Any adverse perception of Pepper's reputation or image on the part of investors, customers, counterparties, rating agencies or regulators could materially adversely affect Pepper's business, operating and financial performance.

4.1.8 Regulatory changes for funders

There is a risk that Pepper's funding banks could experience changes to their regulatory requirements which could impact their ability to fund Pepper, such as a need to hold more capital against warehouse lines, consolidate warehouse assets onto their balance sheet or other changes.

4.1.9 Increased competition in the lending and servicing markets

Each of Pepper's operating activities is subject to competitive pressures. There is a risk that competitive forces could impact Pepper more than anticipated by the Directors and Management. Any reduction in fees or interest rate margins in line with, or to remain competitive within, the lending market, or loss of market share due to competitive pressures could materially adversely affect Pepper's business, operating and financial performance. If Pepper's competitors offer comparable products or services at lower margins, existing Pepper customers or partners may choose to refinance their loans with other lenders or enter into relationships with other servicers. Furthermore, providers of loans in alternative segments of the loan market may elect to enter Pepper's core markets, resulting in an increase in competition for Pepper's customers. If more customers choose to refinance their loans with other lenders than Pepper has currently forecast, its business, operating and financial performance could be materially adversely affected. If servicing partners choose not to enter into agreements with Pepper, or do not choose to extend, renew or continue existing agreements, Pepper's business, operating and financial performance could be materially adversely affected.

4.1.10 Business continuity and operational matters

Pepper's business is highly dependent on its ability to process a large number of transactions and functions on a daily basis. Pepper's financial, accounting, data processing and other operating systems and facilities may fail to operate or become partially disabled as a result of events that are wholly or partly outside Pepper's control.

In addition, Pepper is exposed to the risk of loss resulting from product complexity and pricing risk, client sustainability and servicing risk, incorrect evaluation, record or accounting for transactions, human error, breaches of Pepper's internal policies and regulations, breaches of security, theft and fraud and improper business practices. Pepper's inability to maintain business continuity in such a situation could materially adversely affect Pepper's business, operating and financial performance.

4.1.11 Downturn in the global economy

Pepper is a global business operating in multiple jurisdictions. A material downturn in the economies in which Pepper operates, a sustained outbreak of higher inflation or shocks to the financial system (e.g. a Greek exit from the European Union) could result in a material increase in unemployment, decreases in house prices, higher interest rates, general reduction in demand for credit and/or a reduction in a borrower's ability to service their debt. These factors, either alone or in combination, could materially adversely affect Pepper's operations and financial performance in a number of different ways, including:

- significantly higher unemployment or higher interest rates could result in an increase in loan default rates which could reduce Pepper's AUM, ongoing earnings and/or access to capital;
- a substantial reduction in house prices could drive a significant increase in credit losses as a result of loan defaults, which could impair Pepper's equity interest in Equity Notes of the Funding Vehicles, adversely impacting profitability, Pepper's financial position and access to capital; and
- an economic downturn could reduce demand for credit which could reduce growth in AUM and adversely impact earnings.

4.1.12 Disruption to global markets

As a diversified financial institution, Pepper may be affected by market disruption in a number of ways. Pepper's businesses also operate in, or depend on the operation of, these markets, either directly or indirectly, including through exposures in securities, loans and other activities (including risk management activities). In particular, Warehouse Facilities are generally relatively short term in nature and accordingly Pepper's ability to fund its business is dependent on the willingness of the funders of its Warehouse Facilities to extend their facilities, or on its ability to arrange a refinancing of those facilities through a replacement Warehouse Facility or Term Securitisation in the capital markets. These markets experienced significant disruption during the financial crisis and could experience disruption if another crisis were to occur, including as a result of shocks to the financial system (e.g. a Greek exit from the European Union). In addition, any disruption in the financial markets may flow into the real economy, slowing or contracting major global economies. Accordingly, a disruption in financial markets could materially adversely affect Pepper's business, operating and financial performance.

Pepper's ability to raise capital and funding at an acceptable price, or at all, may be affected. This may adversely affect its costs, performance, financial position and financial flexibility. It may affect its ability to repay debt and access capital and funding for growth. In the event of a major liquidity disruption in the capital markets, it may be necessary or appropriate for Pepper to replace some or all of its short term funding with long term funding. The cost of term funds may be higher than the present cost of Pepper's short term funding. A significant additional cost associated with a major liquidity event in the capital markets could materially adversely affect Pepper's business, operating and financial performance.

4.1.13 Information technology

Pepper's technology platform may be disrupted, become outdated or cease to function efficiently for both Pepper and its customers.

Pepper's ability to provide reliable services, pricing and accurate and timely reporting for its customers is a key competitive advantage. This depends on the efficient and uninterrupted operation of its core technologies, which include specialised and proprietary software systems, IT infrastructure and back-end data processing systems.

Pepper's core technologies and other systems could be exposed to damage or interruption from systems failures, computer viruses, cyber-attacks or other events.

Any systemic failure or sustained disruption to the effective operation of Pepper's technology platform could severely damage Pepper's reputation and its ability to generate new business or retain existing business, directly impair Pepper's operations and customer service levels or necessitate increased expenditure on technology or generally across the business. Any of these outcomes could materially adversely affect Pepper's business, operating and financial performance.

4.1.14 Fraud

Pepper is exposed to the risk that its counterparties and customers, including loan brokers and aggregators, servicing customers and individual loan borrowers, may seek to commit fraud against Pepper or in connection with the products and services that Pepper provides. Fraudulent behaviours could include individual borrowers, brokers or other parties, conspiring to misrepresent their ability to service the loans, overstate the value of their collateral, or undertake identity theft in order to obtain loans. Pepper relies on its internal policies and procedures to identify fraud. Failure of these internal controls could result in damage to Pepper's reputation or standing with funding providers, or impact Pepper's ability to attract new customers, each of which could materially adversely affect Pepper's business, operating and financial performance.

4.1.15 Ability to meet forecasts

The forward-looking statements, opinions and estimates provided in this Prospectus, including the Forecast Financial Information, are based on assumptions, some of which are set out in Section 3. Various factors, both known and unknown, may impact Pepper's performance and cause actual performance to vary significantly from what was expected. There can be no guarantee that Pepper will achieve its stated objectives or that any forward-looking statement or forecast will eventuate. This could materially adversely affect Pepper's business, operating and financial performance.

4.1.16 Changes in servicer ratings

Pepper's loan servicer ratings may be withdrawn, revised or suspended by the relevant rating agencies. Such changes could materially adversely affect Pepper's business, operating and financial performance.

4.1.17 Contracts and agreements

There are a number of risks associated with Pepper's existing contracts and agreements, including those related to previous acquisitions, information technology contracts and property leases. There is a risk that the Group's existing contracts may be terminated, lost or impaired, or renewed on less favourable terms. Some of Pepper's contracts can be terminated without cause or on short notice periods (depending on the termination event or circumstances), and although the relevant parties may continue to operate on existing commercial terms, a number of its existing contracts have expired or will shortly expire. Pepper may be subject to termination break fees in certain circumstances. A number of Pepper's contracts contain change of control provisions which will be triggered by the Offer. In the event that consent to the change of control is not obtained from the relevant counterparty, there is a risk that the contract could be terminated and this could materially adversely affect Pepper's business, operating and financial performance. A loss of any of Pepper's contracts could have a materially adverse effect on its business, operating and financial performance.

Additionally, Pepper is subject to a number of ongoing obligations, including obligations to make certain payments, and is subject to various levels of liability under indemnity provisions in a number of its contracts and agreements. There is a risk that Pepper will be unable to meet its existing payment obligations or unable to adequately fund its exposure to damages or compensation owed to an indemnified party. Any failure to meet these obligations could materially adversely affect Pepper's business, operating and financial performance.

4.1.18 Imprecise prediction of the rate of repayment of existing assets

There is a risk that the rate of repayment (also known as CPR), associated with Pepper's existing loan portfolio, and non-conforming loans in particular, increases as a result of lower interest rates, increased competition in the lending market, increased willingness of prime lenders to accept higher credit risk and improvements in borrower credit ratings. Pepper's income forecasts are dependent on accurately estimating the CPR. There is a risk that the CPR is higher than Management forecasts which, if not offset by additional originations, could adversely impact Pepper's profitability. This could materially adversely affect Pepper's business, operating and financial performance. In addition, there is a risk that the repayment rates of Pepper's servicing portfolios are higher than expected which could impact Pepper's financial performance.

4.1.19 Attraction and retention of quality personnel

The successful operation of Pepper relies on its ability to attract and retain experienced and high-performing employees with specialist skills (including, in particular, a highly-skilled management team). There is a risk that a failure to retain certain key employees could lead to the loss of, or a change in the conditions attached to, the Group's Australian Financial Services Licences. Failure to appropriately recruit and retain employees may adversely affect Pepper's ability to develop and implement its business strategies, result in a material increase in the costs of obtaining experienced and high-performing employees and could materially adversely affect Pepper's business, operating and financial performance.

4.1.20 Adverse movement in interest rates

Demand for, and the performance of, Pepper's mortgage products is influenced by the level of interest rates. Increases in interest rates can lead to reduced demand for home loans and increased risks of loan defaults, reducing industry profitability. There is a risk that if interest rates increase in the future, Pepper's growth and earnings will be cut and Pepper's business, operating and financial performance may be materially adversely affected.

Credit rating agencies may withdraw, revise or suspend the credit ratings for Pepper's asset management businesses. Such changes could materially adversely affect Pepper's business, operating and financial performance.

4.1.21 Changes in foreign exchange rates

Pepper's financial reports are prepared in Australian dollars. Pepper's revenues, expenses, cash flows, assets and liabilities in regions outside Australia are denominated in local currencies which include the United States dollar, British pound, euro, South Korean won, Chinese yuan and Hong Kong dollar. Pepper manages its foreign exchange risk by matching the currency of loan receivables and funding, and by monitoring the cash flow requirements of the business and regional operating subsidiaries on an ongoing basis. Pepper does not currently hedge its offshore earnings. As a result, certain movements in the exchange rates relevant to each of Pepper's offshore businesses could materially adversely affect Pepper's financial performance.

4.1.22 Relationships with distribution partners

Pepper currently has relationships with a significant number of distribution partners including mortgage brokers, aggregators and motor dealers. The success of Pepper's business and its ability to grow relies on its ability to retain its existing key distribution relationships and its ability to continue to attract distribution partners. If Pepper is unable to maintain its existing relationships or attract new distribution partners, its business, operating and financial performance could be materially adversely affected.

4.1.23 Counterparty credit

Pepper uses derivatives to hedge interest rate and foreign currency exposure. Pepper is exposed to the risk that financial counterparties do not meet their financial obligations. A failure by Pepper to adequately assess and manage counterparty credit risk may result in credit losses, potentially resulting in a material adverse effect on Pepper's business, operating and financial performance.

4.1.24 Risk of litigation, claims or disputes

Pepper may be subject to litigation and other claims and disputes in the course of its business, including employment disputes, contractual disputes, indemnity claims, occupational health and safety claims, action in relation to the breach of an Australian Financial Services Licence condition or criminal or civil proceedings. Such litigation, claims and disputes, including the cost of settling claims or paying any fines, operational impacts and reputational damage, could materially adversely affect Pepper's business, operating and financial performance. On 31 October 2014, the Company hosted a cruise attended by a number of mortgage brokers. On the day after the event, the body of one of the attendees was found at sea. The Company understands that a coronial inquest is pending. The Company has been charged with unlicensed supply of alcohol during the cruise in contravention of s109(1) of the *Liquor Control Act 1988* (WA), and intends to plead guilty to this offence. A corporation convicted of this offence is liable to a penalty of between $10,000 and $100,000. At this stage, the Company does not have any reason to believe that it has any material exposure in connection with this incident.

4.1.25 Protection of intellectual property

Pepper relies on laws relating to trade secrets, copyright and trademarks to assist in protecting its intellectual property. However, there is a risk that unauthorised use or copying of Pepper's intellectual property will occur. In addition, there is a risk that the validity, ownership or unauthorised use of intellectual property relevant to the Group's business will be successfully challenged by third parties. There is also a risk that Pepper may inadvertently fail to protect its intellectual property sufficiently or infringe the intellectual property rights of third parties. These scenarios could involve significant expense and potentially the inability to use the intellectual property in question. If an alternative cost-effective solution is not available, or no solution is available, this could materially adversely affect Pepper's business, operating and financial performance.

4.1.26 Liabilities in relation to third-party servicing or management services

There is also a risk that Pepper incurs liabilities under indemnities that it provides to the third-party owners of the loan portfolios that its services. Failure to adhere to the terms of the servicing contracts or otherwise causing losses for the beneficial owner could result in Pepper incurring liabilities under these contracts. Incurring such liabilities could impact Pepper's profitability, gearing or ability to grow. This could materially adversely affect Pepper's business, operating and financial performance.

4.1.27 Availability of tax losses in Ireland

Pepper Finance Corporation (Ireland) Limited is currently in dispute with the Irish tax revenue authority regarding the treatment of Irish tax losses and the utilisation of these losses. A deferred tax asset has not been recognised for the losses and their use has not been assumed in the Forecast Financial Information. If Pepper were to lose the dispute with the Irish tax revenue authority in relation to the 2012, 2013 and 2014 years, the financial impact of this to Pepper would be approximately €1.3 million. This could materially adversely affect Pepper's business, operating and financial performance.

4.1.28 Availability of tax losses for bad debts

Consistent with the taxation treatment of financial institutions in general, the availability of bad debt deductions is subject to the satisfaction of various loss integrity rules in the tax laws of the jurisdictions that Pepper operates in. In particular, changes of ownership or changes of business activity of Pepper may affect its ability to claim bad debt deductions in relevant jurisdictions. Denial of bad debt deductions may result in an increase in income tax expense and effective tax rate of Pepper. This could materially adversely affect Pepper's business, operating and financial performance.

4.2 General risks of an investment in Pepper

4.2.1 Price of Shares

The price of Shares quoted on ASX may rise or fall and the Shares may trade below or above the Offer Price due to a number of factors. These factors may cause the Shares to trade at prices below the Offer Price. There is no assurance that the price of the Shares will increase following the quotation on ASX, even if Pepper's earnings increase.

Some of the factors that may affect the price of the Shares include:

- general economic conditions, including interest rates, exchange rates, inflation rates and commodity prices;
- fluctuations in the local and global market for listed stocks;
- changes to government fiscal, monetary or regulatory policy, legislation or regulation;
- inclusion in or removal from market indices;
- the nature of markets in which Pepper operates;
- general and operational business risks; and
- global hostilities, tensions and acts of terrorism.

4.2.2 Financial market conditions

General economic conditions (both domestically and internationally) may adversely impact on the price of the Shares after Listing as well as the Company's ability to pay dividends. This includes an increase in unemployment rates, negative consumer and business sentiment and an increase in interest rates, among other factors. As a result of the above-mentioned factors, the Company and SaleCo are unable to forecast the market price for Shares and they may trade on ASX at a price that is below the Offer Price.

4.2.3 Liquidity of Shares

Prior to the Offer, there has been no public market for the Shares. Once the Shares are quoted on ASX, there can be no guarantee that an active trading market for the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on ASX at any time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

Following Completion of the Offer, the Escrowed Shareholders will hold Escrowed Shares constituting 68.4% of the Shares on issue, which will reduce the size of the free float of Shares and may also impact on liquidity. Further, the Escrowed Shareholders will hold approximately 69.3%[36] of the Shares on issue, which may also impact on liquidity. The Escrowed Shareholders have entered into voluntary escrow arrangements in relation to all of the Shares they hold will immediately following Completion of the Offer. A summary of the escrow arrangements in relation to the Offer is set out in Section 8.6. The absence of any sale of Shares by the Escrowed Shareholders during the relevant escrow period may cause, or at least contribute to, limited liquidity in the market for the Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares.

Following the expiration of the relevant escrow period (or the application of limited exceptions), Shares held by the Escrowed Shareholders will be able to be freely traded on ASX. A significant sale of Shares by an Escrowed Shareholder, or the perception that such sale has occurred or might occur, could materially adversely affect Pepper's business, operating and financial performance, or impact the Share price.

36. 1.4 million Shares and 0.3 million Shares relating to the LTI Scheme and Employee Gift Offer (respectively) issued on or shortly after Completion to the Incentive Scheme Trustee (an Escrowed Shareholder) will not be subject to escrow but will be subject to the terms described in Section 5.3.4. Some Escrowed Shareholders have expressed an intention to acquire Shares as part of the Offer (which will not be subject to voluntary escrow arrangements), see Section 6.1.6 for more information.

4.2.4 Acquisition and dilution

In the future, the Company may elect to issue Shares or engage in fundraisings and also to fund, or raise proceeds, for acquisitions that the Company may decide to make. The successful implementation of acquisitions will depend on a range of factors including funding arrangements, cultural compatibility, and operational integration. To the extent any acquisitions are not successfully integrated with Pepper's existing business, the business, operating or financial performance of Pepper could be materially adversely affected.

Shareholder interests may be diluted and Shareholders may experience a loss in value of their equity if the Company issues Shares as consideration for acquisitions, if the Company funds acquisitions through raising equity capital by placing Shares with new investors or if the Company engages in fundraisings for any other reason, including the repayment of debt. While the Company will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares and fundraisings.

4.2.5 Taxation changes

Tax laws in Australia, and the foreign jurisdictions in which Pepper operates, are complex and are subject to change periodically as is their interpretation by the courts and the tax revenue authorities. There is therefore potential for further changes to these tax laws. Any changes to the tax laws and tax rates imposed on Pepper in Australia and these foreign jurisdictions give rise to uncertainty and may affect returns to Shareholders.

An interpretation of the taxation laws by Pepper which is contrary to that of a revenue authority in Australia or a foreign jurisdiction may give rise to additional tax payable. In order to minimise this risk, in areas of uncertainty, Pepper obtains external expert advice on the application of the tax laws to its operations (as applicable).

4.2.6 Australian Accounting Standards

AAS are set by the Australian Accounting Standards Board (**AASB**) and are outside the control of either Pepper or its Directors. The AASB is due to introduce new or refined AAS during the period from 2014 to 2018, which may affect future measurement and recognition of key income statement and balance sheet items, including revenue and receivables.

There is also a risk that interpretations of existing AAS, including those relating to the measurement and recognition of key income statement and balance sheet items, including revenue and receivables, may differ. Changes to AAS issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in the Company's consolidated financial statements.

4.2.7 Force majeure events

Events may occur within or outside the economies in which Pepper operates that could impact upon those economies, the operations of Pepper and the price of the Shares. The events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for Pepper's services and its ability to conduct business. Pepper has only a limited ability to insure against some of these risks.

05.

Key Individuals, Interests and Benefits

05. KEY INDIVIDUALS, INTERESTS AND BENEFITS

5.1 Board of Directors

The Directors bring to the Board relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience.

Director	Biography
 Seumas Dawes *Chairman and Non-Executive Director*	Seumas Dawes is a professional investor, through his own private companies, specialising in distressed and special situations. He invests in private companies as well as listed ones, generally in control positions. In addition to his interest in Pepper, Mr Dawes has various investments, particularly in the banking sector, in Asia, the United States and Europe. Prior to concentrating on his own investment vehicles, he was a Senior Portfolio Manager and member of the Investment Committee of Ashmore Group Plc, listed on the London Stock Exchange. Earlier in his career, Mr Dawes was a credit and derivatives trader with various international investment banks. Mr Dawes also spent three years as an adviser to the then Treasurer of Australia (later Prime Minister), the Hon PJ Keating.
 Des O'Shea *Independent Non-Executive Director*	Des O'Shea was appointed to the board of Pepper Australia Pty Ltd in March 2014. He is also a non-executive director of Ulster Bank Limited and Ulster Bank Ireland Limited (where he is Chair of the Audit Committee in both banks and a member of the Risk Committees), Open Joint Stock Company Orient Express Bank in Russia (where he is a member of the Finance Committee), GTLK Europe Limited, of GTLK 5 737 Limited and Byblos Bank in Lebanon (where he is a member of the Risk Committee). In November 2011, Mr O'Shea retired from GE Capital after 14 years during which he held a variety of senior roles including Chief Risk Officer, Chief Commercial Officer and Head of M&A for GE Money in Europe which was GE Capital's largest and most successful and profitable business in Europe. From 2008 to 2011, he was responsible for GE's investments and partnerships in banks in high growth emerging markets such as Turkey, Thailand, Taiwan, Central America and Columbia and served on the boards of these banks. He also led a major divestment program for GE Capital Global Banking. From 1981 to 1991, Mr O'Shea worked for Ulster Investment Bank in Corporate Banking and headed up its IFSC activities. He also worked with Woodchester Investments Plc, Cambridge Group and Arthur Andersen. Mr O'Shea has a Bachelor of Commerce degree from University College Cork and is a Fellow of the Institute of Chartered Accountants in Ireland.

Director	Biography
 Melanie Willis *Independent Non-Executive Director*	Melanie Willis has extensive strategic, commercial and financial skills in executive and non-executive roles in a wide range of industries and has had significant board-level exposure to international operations and global businesses. She is currently a non-executive director of the ASX listed hospitality and accommodation operator Mantra Group, where she is the Chair of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee. During the last 10 years, Ms Willis has also held Non-Executive Directorship roles at ASX listed financial services and accounting company, Crowe Horwath, retirement village and aged care operator Aevum Limited (including Audit Committee Chair), Hydro Tasmania (including Audit & Risk Committee Member) and novated leasing provider, Rhodium Asset Solutions. Until March 2015, she was Chief Executive Officer of NRMA Investments where she was responsible for NRMA's commercial businesses (Thrifty, NRMA travel, Holiday Parks and Travelodge), $800 million investment portfolio and overall group strategy and innovation. She also has 15 years investment banking and structured finance experience with senior executive roles with Deutsche Bank (Director) and Bankers Trust Australia (Vice President). Ms Willis holds a Bachelor of Economics from The University of Western Australia, a Masters of Law (Tax) from The University of Melbourne and a Company Director Diploma from the Australian Institute of Company Directors. In addition, Ms Willis has completed a leadership course at Harvard Business School, is a member of Chief Executive Women and the Big Issue Women's Advisory Board. Ms Willis is also a Fellow of the Australian Institute of Company Directors.
 Matthew Burlage *Independent Non-Executive Director*	Matthew Burlage has spent the last three decades involved in financing and advising Asia's leading corporations, government enterprises and financial institutions and has been involved in some of the most ground-breaking transactions in Asia, particularly in the telecom, media and technology (TMT) sectors. In 2000, Mr Burlage co-founded IRG, a boutique financial advisory and investment firm focused on the core growth sectors in Asia. Mr Burlage advises Asian and global corporates, private equity funds, hedge funds and sovereign wealth funds on a range of transactions including mergers, acquisitions, corporate restructurings, and debt capital and equity capital financings. Mr Burlage is also responsible for the firm's investment strategy and management of its proprietary capital. Before co-founding IRG, Mr Burlage was a Managing Director and Head of Industry Groups at Lehman Brothers in Hong Kong where he created the first and largest dedicated TMT industry group at an investment bank in Asia in the early 1990s. He has been an adviser on capital raisings, equity/debt financings and merger and acquisition strategy to Asia's leading companies in Japan, Singapore, Hong Kong, Indonesia, China, Thailand, Taiwan, and South Korea, as well as to global telecommunications operators in Europe and the US. Mr Burlage was ranked Number One in ex-Japan Corporate Asia, and Number Two in Corporate Asia, by Institutional Investor, and is a member of Institutional Investor's Top 20 Global E-Finance Elite for Asia and Europe. Mr Burlage has a MBA from Harvard Business School and a Bachelor of Arts from Yale University, and attended the Japanese Language Institute of Sophia University.

Director	Biography
 Michael Culhane *Co-Group Chief Executive Officer and Director*	Michael Culhane founded Pepper in 2000. From 2001 to 2008, Mr Culhane chaired the Board as well as founding and running Oakwood Global Finance LLP that grew into a diversified speciality finance business. Mr Culhane is Co-Group CEO along with Patrick Tuttle and co-chairs with Mr Tuttle the Pepper Group Global Executive Committee. Mr Culhane takes responsibility for acquisitions and the more transactional businesses within the Group such as Pepper's CRE advisory business. The internal mergers and acquisitions team also report to Mr Culhane. In 2006, Mr Culhane organised the sale of Pepper and the wider Oakwood group of businesses to Merrill Lynch debt capital markets. From 2006 to 2008, Mr Culhane was the group CEO of Oakwood that in turn owned Pepper and numerous specialty finance businesses in Europe. As the financial crisis hit in 2008, Mr Culhane and his senior United Kingdom team grew Oakwood's United Kingdom residential mortgage servicing business that was not owned by Merrill Lynch at the time. In 2010, Mr Culhane teamed up with Patrick Tuttle to organise the purchase of Pepper back from Merrill Lynch that, by then, had been sold to Bank of America. In January 2011, Mr Culhane relocated from London to Sydney to run Pepper along with Patrick Tuttle. Prior to founding Pepper, Mr Culhane served as the Executive Chairman of Future Mortgages (a United Kingdom-based non-conforming residential mortgage lender that was sold to Citigroup in 2001) and the Chief Executive Officer of the European subsidiary of FBR, a United States-based, NYSE-traded, investment bank. While at FBR, Mr Culhane worked for 10 years in equity capital markets, 4 years in Washington DC in the US and 6 years in London in the United Kingdom.
 Patrick Tuttle *Co-Group Chief Executive Officer and Director*	Patrick Tuttle is CEO (appointed in December 2007) for Pepper's Australian operating business, comprising its residential mortgage lending, asset finance and specialist loan servicing activities, and the country heads responsible for Pepper's European and Asian lending and loan servicing businesses also report directly to him in his capacity as Co-Group CEO. He is Chairman of Pepper's Australian Executive Committee and Co-Chairman (with Michael Culhane) of Pepper Group's Global Executive Committee. Mr Tuttle has extensive experience in financial services, investment banking and mortgage banking, with a particular emphasis on structuring and managing Australian mortgage-backed securities programs, and managing specialty mortgage finance and loan servicing operations. Prior to joining Pepper in 2001 as CFO & Treasurer, Mr Tuttle held a number of director-level roles within Macquarie Bank Limited, principally as Divisional CFO for a number of the Bank's trading businesses, including Project & Structured Finance, Corporate Finance, Banking & Property Group, Macquarie Capital, and the Direct Investments Group. Mr Tuttle initially joined Price Waterhouse in 1986 as an undergraduate and worked for the firm's financial services practices in both Sydney and London until 1998, attaining the position of Senior Manager. Mr Tuttle has a Bachelor of Economics (Accounting & Finance) degree from Macquarie University. He is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Australian Securitisation Forum, Inc. (ASF), a Member of the Australian Institute of Company Directors, a Member of the Ireland Institute of Company Directors, and a Member of the Financial Services Institute of Australasia. Mr Tuttle was also a board Member of the ASF from 2004 to 2013, Deputy Chairman of the ASF from 2008 to 2013, and Co-Chair of the ASF Government and Industry Liaison Committee from 2010 to 2013. Mr Tuttle was awarded CEO Magazine's Financial Services Executive of the Year Award in November 2014.

5.1.1 Director disclosures

This section sets out information about:

- any company that entered into a form of external administration because of insolvency during the time a Director was an officer of that company (or within a 12 month period afterwards); or
- any legal or disciplinary actions against a Director (or against companies that the Director was a director of at the relevant time) that are less than 10 years old.

Des O'Shea was a recently resigned director of Garanti Bank (a company incorporated in Turkey) when it was the subject of certain fines by the Turkish Competition Board of approximately $4.3 million and $104 million in 2011 and 2013 respectively, related to alleged anti-competitive behaviour by the company. The Board understands that the 2013 fine is currently being appealed by the company.

Michael Culhane was a recently resigned director of Ktesios SPA (a company incorporated in Italy) in 2009 when he was the subject (along with other directors) of a fine by the Bank of Italy of approximately €15,000 related to capital requirements and auditing activities during his directorship. Mr Culhane was a recently resigned director of Edeus Europe Limited and Edeus Mortgage Creators Limited (each a company incorporated in the United Kingdom) when the companies were placed into administration due to insolvency in 2008.

In each case set out above, the other directors of Pepper do not believe that the above matter is material to the future performance of the relevant Director's duties as a director of Pepper or the future performance of the Group.

5.2 Key executives

Executive	Biography
Michael Culhane *Co-Group Chief Executive Officer*	See Section 5.1.
Patrick Tuttle *Co-Group Chief Executive Officer*	See Section 5.1.
 Cameron Small *Group Chief Financial Officer*	Appointed in 2011 as Group Chief Financial Officer, Cameron Small is responsible for managing Pepper's global teams in Finance, Treasury, IT, Legal and Project Management. He is a Chartered Accountant with more than 20 years' experience of regulated financial markets. Prior to joining Pepper, Mr Small spent the previous 12 years in CFO positions with global investment banks based in the United Kingdom, more recently with Altium Capital and Credit Suisse. Mr Small commenced his career with a legacy PricewaterhouseCoopers firm in Sydney in 1988 before transferring to London in 1995. The majority of this time was served in the financial services practice. Throughout his time as CFO, he has managed large teams of professionals deployed across Europe, Middle East and Africa as well as managing a diverse number of regulatory relationships covering a dozen or more jurisdictions. Mr Small holds a Bachelor of Commerce (Accounting) degree from The University of New South Wales as well as being a Fellow of the Financial Services Institute of Australasia and a Member of the Chartered Institute for Securities and Investment, United Kingdom.

Executive	Biography
 Timothy Cecil *Group Chief Risk Officer*	Timothy Cecil is responsible for the leadership of Pepper's global risk management function. Mr Cecil has 20 years of international experience in risk management, operations and finance and has lived and worked in the United Kingdom, Canada, Bermuda, Switzerland, Australia and the United States. Prior to joining Pepper, Mr Cecil was the CFO and Chief Operating Officer of an investment advisory firm. Previously, Mr Cecil ran the risk management group for a global reinsurance company listed on the NYSE and was the Group Chief Risk Officer for a global multi-strategy offshore hedge fund. Earlier, Mr Cecil held a number of senior risk management positions at HSBC and spent several years working in investment banking. Mr Cecil holds an MBA from The Wharton School, University of Pennsylvania, a Masters of Finance degree from the London Business School and a Bachelor of Arts in Statistical Science degree from the University of Western Ontario. He is a Chartered Financial Analyst charterholder, a Chartered Alternative Investment Analyst charterholder and a Certified Financial Risk Manager.
 David Holmes *Chief Operating Officer*	Appointed in August 2000 as Pepper's Chief Operating Officer, David Holmes is responsible for the strategy, development, implementation and ongoing monitoring of Pepper's credit policy and procedures. Mr Holmes oversees all of Pepper's servicing operations teams; this includes Underwriting, Business Processing, Customer Service, Collections, Settlements and Compliance and he is ultimately responsible for all aspects of Pepper's lending criteria and end-to-end operations processes. Prior to joining Pepper, Mr Holmes was involved in pioneering the non-conforming home loan market in the United Kingdom while working as a senior credit executive with Preferred Mortgages. Earlier, he was a financial adviser with Abbey National, a major United Kingdom bank, which he joined after a career in underwriting with Citibank and earlier as a branch manager with Nationwide Building Society, Britain's largest building society.
 Todd Lawler *Group Treasurer*	Appointed in June 2009, Todd Lawler is responsible for managing the overall treasury function of the Group, ensuring effective sourcing of debt domestically and offshore to meet the ongoing funding requirements of the business, managing all secured and unsecured loan and debt capital market facilities, managing interest rate risk, foreign currency risk, liquidity and market/balance sheet risk, and developing appropriate treasury strategies in relation to debt capital management. Mr Lawler came to Pepper after eight years with GMAC-RFC where he served in multiple roles in non-conforming lending in the United States, Europe and Australia in both finance and executive roles. Prior to his time with GMAC-RFC, he spent over 10 years with KPMG and is a Chartered Accountant with more than 18 years' experience, mostly in financial services.

Executive	Biography
 Mario Rehayem *Director, Sales and Distribution*	Mario Rehayem is the Director of Sales and Distribution at Pepper, responsible for leading the teams that manage, sell and distribute Pepper's portfolio of retail home loan products via direct, White-Label and third-party mortgage broker distribution channels. Prior to this, Mr Rehayem was State Manager, Mortgage Broker Distribution – Western Australia and Southern Australia at Westpac Banking Corporation. In that role, Mr Rehayem managed a team of Business Development Managers and led third-party distribution strategy within these two states. Prior to Westpac, Mr Rehayem was a State Manager for Pepper in New South Wales. A well-regarded and accomplished executive, Mr Rehayem has had over 13 years of experience in financial services and in this time has been a champion of mortgage broker education and growing the specialist lending category, culminating in Pepper's recognition as Australia's Best Specialist Lender in 2013 and 2014. Mr Rehayem has a reputation for service and imparting insightful practical advice for brokers garnered from many years spent as both a broker and a lender.
 Sue Kent *Group Head of Human Resources*	Sue Kent joined Pepper in 2009 as Head of Human Resources with responsibility to guide and manage the overall provision of human resources (**HR**) services, policies and programs for the Company, including the development of a global HR framework that will deliver sustainable organisational capability, leadership and culture across the Group. Ms Kent leads the HR team based at Pepper's Head Office in North Sydney, and works closely with the Group HR teams across Europe and the United Kingdom to provide strategic and operational HR initiatives to support Pepper's people management practices, organisation development and workforce strategies across the Group. Ms Kent has over 20 years' generalist HR experience gained within a diverse range of industries including FMCG and engineering services. Prior to Pepper, Ms Kent held a number of senior HR roles with Nestlé Australia, Philips Electronics and BHP.
 Bernie Campbell *Managing Director, Pepper Asset Finance*	In October 2014, Bernie Campbell was appointed Managing Director for the newly formed Asset Finance Division of the Group. Mr Campbell was previously Managing Director of Capital Finance Australia Limited and a member of the Executive Board for the Lloyds Banking Group businesses in Australia for six years having been one of five executives responsible for the start-up of Capital Finance in 1995. Capital Finance was a leading independent specialist financier of motor vehicles, plant and equipment with over 400 operational staff and 150 support staff and receivables of more than $6.5 billion across consumer, commercial, large corporate, government and multi-national customers. Following the acquisition of Capital Finance on 31 December 2013 by St George Bank for a significant premium, Mr Campbell headed up the St George Asset Finance Division, one of the largest specialist asset finance businesses in Australia with $18 billion in assets, 0.5 million customers and $8 billion of new lending annually. Mr Campbell has a Master of Applied Finance (Macquarie University) and has completed the Advanced Management Program at INSEAD.

Executive	Biography
 Paul Doddrell *Chief Executive Officer, Pepper Ireland*	Appointed in September 2012 as Pepper Ireland Chief Executive Officer, Paul Doddrell is responsible for the day-to-day management decisions across Pepper Ireland and for implementing the Company's long and short term plans. Mr Doddrell acts as a direct liaison between the Board and management of the Company. Joining Pepper from GE Capital in 2012, Mr Doddrell has over 20 years of financial services experience in a broad range of financial products including mortgage, personal loan, auto, commercial and leasing. At GE Capital, Mr Doddrell held a number of key senior positions including CEO of GE Capital Woodchester, and prior to that he was Head of Asset Management for GE Money Home Lending in the United Kingdom. He is a Chartered Management Accountant.
 Richard Klemmer *Chief Executive Officer, Pepper United Kingdom*	Richard Klemmer is the CEO of Pepper (United Kingdom) Limited and has been associated with Pepper and its predecessor companies since 1999, including acting as the inaugural Pepper Australia CEO from 2001 through 2006. Mr Klemmer has over 20 years of experience in the residential mortgage sector and a proven track record in establishing successful servicing and lending businesses. Prior to establishing Pepper, Mr Klemmer worked at Future Mortgages as Director of Operations and Chief Credit Officer. Previously, Mr Klemmer worked for IMC Mortgage Company in Florida. While there, he held the position of International Market Development Manager, successfully overseeing the creation of Preferred Mortgages Limited in the United Kingdom and IMC Mortgage Company, Canada Limited.
 Francisco (Paco) Pedraza *Chief Executive Officer, Pepper Spain*	Francisco Pedraza is a respected leader in the Spanish financial market, with over 20 years' experience in consumer finance including: personal loans, auto financing and mortgages. Mr Pedraza has been CEO for Pepper Spain since March 2013. Mr Pedraza has occupied key positions including CFO at Avco Financial Services and ACC Bank Spain and Business Manager at CitiFinancial Spain. While CEO of Celeris Financial Services, Mr Pedraza placed the company in the top 10 consumer finance institutions within 6 years, with a unique model of operational risk management and portfolio quality. Mr Pedraza's extensive experience as a third-party loan servicer supports the Group's current strategy of building a European platform focused on advisory and asset management. Mr Pedraza has a Bachelor of Arts and Executive MBA from IE Business School.

Executive	Biography
 **Matthew Chang** *Chief Executive Officer, Pepper South Korea*	With more than 20 years of experience in the financial services, Matthew Chang was appointed in 2013 as Chief Executive Officer responsible for Pepper's South Korean business. Prior to joining Pepper, Mr Chang worked as Head of Branch Distribution for Standard Chartered First Bank and Country Head of the Consumer Business for Standard Chartered Bank, South Korea. As Country Head of Consumer Business for Standard Chartered South Korea, Mr Chang met or exceeded performance goals including top-line revenue and profit. He also successfully launched the Standard Chartered Private Bank in South Korea as part of its consumer operation expansion plans. Mr Chang has credit and risk management experience from one of the top database management financial institutions in the US as he managed credit at the highest levels at a US credit card company (Providian Financial), covering all aspects of unsecured lending. With over 10 years of database management experience utilised for risk management, modelling, and marketing, Mr Chang's experience is suited to Pepper's strategic objectives. Mr Chang has a Bachelor of Science in Economics Degree from the Wharton School of the University of Pennsylvania.

5.3 Interests and benefits

This section sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- director or proposed director of the Company;
- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- underwriter (but not a sub-underwriter) to the Offer or a financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

held, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before the lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

5.3.1 Interests of advisers

The Company and SaleCo have engaged the following professional advisers:

- Highbury Partnership has acted as Financial Adviser to the Company in relation to the Offer. The Company and SaleCo have paid, or agreed to pay, 0.5% of market capitalisation for the services up to the date of this Prospectus;
- Goldman Sachs Australia Pty Ltd has acted as a Joint Lead Manager to the Offer. The Company and SaleCo have paid, or agreed to pay, the fees described in Section 8.5.1 for the services up to the date of this Prospectus. In addition, Goldman Sachs and its affiliates (together, GS) have been and may, from time to time, be engaged in financing, hedging, corporate advisory and other services and may also act or have acted as counterparty to transactions involving the Company or its affiliates, and GS has also co-invested with, purchased loans from and/or sold loans to, and entered into servicing arrangement for loans with, the Company or its affiliates, and may continue to do so from time to time. GS may receive or pay, as applicable, fees, other economic benefits or costs from these arrangements. GS may also, from time to time, have long or short positions in, invest in or buy or sell (on a principal basis or otherwise) financial products or instruments (including loans) which the Company or its affiliates have issued, manage or have a direct or indirect interest;
- Macquarie Capital (Australia) Limited has acted as a Joint Lead Manager to the Offer. The Company and SaleCo have paid, or agreed to pay, the fees described in Section 8.5.1 for the services up to the date of this Prospectus. In addition, Macquarie Capital or a related corporate body (together, Macquarie) have been and may, from time to time, be engaged in financing, hedging, corporate advisory and other services and may also act or have acted as counterparty to transactions involving the Company or its affiliates and Macquarie may from time to time co-invest with, purchase loans from and/or sell loans to, and enter into servicing arrangements for loans with, the Company or its affiliates. Macquarie may receive or pay, as applicable, fees, other economic benefits or costs from these arrangements. Macquarie may also, from time to time, have long or short positions in, invest in or buy or sell (on a principal basis or otherwise) financial products or instruments (including loans) which the Company or its affiliates have issued, manage or have a direct or indirect interest;
- Herbert Smith Freehills has acted as Australian legal adviser to the Company and SaleCo in connection with the Offer (other than in respect of taxation and stamp duty matters). The Company and SaleCo have paid, or agreed to pay, $1.7 million for these services up the date of this Prospectus. Further amounts may be paid to Herbert Smith Freehills in accordance with its normal time-based charges;
- Deloitte Corporate Finance has acted as Investigating Accountant for the Company and SaleCo in relation to the Offer and has prepared the Investigating Accountant's Report and has performed work in relation to due diligence enquiries. The Company and SaleCo have paid, or agreed to pay, $1.3 million (inclusive of GST) for the services up until the date of this Prospectus. Further amounts may be paid to Deloitte Corporate Finance in accordance with its normal time-based charges; and
- PricewaterhouseCoopers has acted as taxation adviser to the Company and SaleCo in relation to the Offer. The Company and SaleCo have paid, or agreed to pay, approximately $575,000 for the services up to the date of this Prospectus. Further amounts may be paid to PricewaterhouseCoopers in accordance with its normal time-based charges.

In addition, CBA Equities Limited has been engaged as Co-Lead Manager to the Offer and will be paid a fee of $500,000 (inclusive of GST) in addition to a fee of 1.50% (inclusive of GST) of their allocation, payable by the Joint Lead Managers out of the fees payable to the Joint Lead Managers by the Company. JBWere Limited and Macquarie Equities Limited have been engaged as Co-Managers to the Offer and they will each be paid a fee of 1.50% (inclusive of GST) of their allocation, payable by the Joint Lead Managers out of the fees payable to the Joint Lead Managers by the Company.

In connection with the Institutional Bookbuild, one or more investors may elect to acquire an economic interest in the Offer Shares ("Economic Interest"), instead of subscribing for or acquiring the legal or beneficial interest in those shares. One or more of the Lead Managers (or their affiliates) may, for their own account, write derivative transactions with those investors relating to the Offer Shares to provide the Economic Interest, or otherwise acquire shares in the Issuer in connection with the writing of such derivative transactions in the secondary market. As a result of such transactions, one or more of the Lead Managers (or their affiliates) may be allocated, subscribe for or acquire Offer Shares or shares of the Issuer in the secondary market, including to hedge those derivative transactions, as well as hold long or short positions in such shares. These transactions may, together with other shares in the Issuer acquired by the Lead Manager or its affiliates in connection with its ordinary course sales and trading, principal investing and other activities, result in the Lead Manager or its affiliates disclosing a substantial holding.

In conjunction with the Offer an investor has entered, or will enter, into a derivative transaction with an affiliate of Goldman Sachs Australia Pty Ltd to create an Economic Interest in the Company. In connection with this transaction an affiliate of Goldman Sachs Australia Pty Ltd will hold a proportionate amount of shares in the Company as a hedge against this derivative transaction and may as a result of this position and other positions held by other affiliates of Goldman Sachs Australia Pty Ltd disclose a substantial holding in the Company and earn fees.

5.3.2 Directors' interests and remuneration

5.3.2.1 Co-Group Chief Executive Officers

Michael Culhane and Patrick Tuttle are employed by the Company in the positions of Co-Group Chief Executive Officers of the Company. Further details in relation to their roles and remuneration are set out in Sections 5.1 and 5.3.3.

Entities associated with Mr Culhane and Mr Tuttle, have each entered into a loan agreement with the Company under which the Company has lent each of them $965,955 in connection with shares they hold in PEPL Holdings Pty Ltd which will be exchanged for shares in the Company in connection with the pre-Offer restructure. The loans are interest free and full recourse, and to be repaid on 31 January 2021 (or such later date agreed to by the Company).

5.3.2.2 Non-Executive Director remuneration

Under the Constitution, the Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director. However, the total amount provided to all Directors for their services (excluding, for this purpose, the salary of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting.

This amount has been fixed by the Company at $800,000 per annum. Any change to that aggregate annual sum needs to be approved by Shareholders. The aggregate sum does not include any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board. All Directors' fees attract superannuation.

The annual Director fees currently agreed to to be paid by the Company to each Non-Executive Director, including the Chairman, are $75,000 (excluding superannuation). No additional fees are payable for Committee membership.

Each of the Non-Executive Directors will also receive a one-off grant of options as part of the Director's remuneration. Please refer to Section 5.3.2.4 for further details.

Directors may also be reimbursed for all reasonable travelling and other expenses incurred by the Directors in attending to the Company's affairs including attending and returning from Board meetings or any meetings of committees of the Board and attending and returning from any general meetings of the Company.

Directors may be paid additional or special remuneration if they, at the request of the Board, and for the purpose of the Company, perform any extra services or make special exertions.

There are no retirement benefit schemes for Non-Executive Directors, other than statutory superannuation contributions.

5.3.2.3 Deeds of indemnity, insurance and access for Directors

The Company has entered into a deed of indemnity, insurance and access with each Director which confirms the Director's right of access to Board papers and requires the Company to indemnify the Director, on a full indemnity basis and to the maximum extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of the Company or a related body corporate.

Under the deeds of indemnity, insurance and access, the Company must maintain a directors and officers insurance policy insuring each Director (among others) against liability as a director and officer of the Company and its related bodies corporate until seven years after a director ceases to hold office as a Director of the Company or a related body corporate (or the date any relevant proceedings commenced during the seven year period have been finally resolved).

5.3.2.4 Directors' shareholdings

Directors are not required under the Constitution to hold any Shares. As at the day before Settlement, Seumas Dawes, Michael Culhane and Patrick Tuttle will be the only Directors who will have an interest in Shares, as set out below. Some of these Shares will be subject to voluntary escrow arrangements. Please refer to Section 8.6 for further detail. The Directors are entitled to participate in the Broker Firm Offer, and the Priority Offer. On Completion of the Offer, the Directors are expected to hold the Shares as set out below.

Table 50: Directors' shareholdings

Director	Shares held prior to Completion of the Offer	Shares held prior to Completion of the Offer (%)	Shares held at Completion of the Offer	Shares held at Completion of the Offer (%)
Seumas Dawes*	51,330,500	40.7%	51,330,500	28.3%
Des O'Shea	–	–	–	–
Melanie Willis	–	–	–	–
Matthew Burlage	–	–	–	–
Michael Culhane*	8,196,000	6.5%	8,196,000	4.5%
Patrick Tuttle*	7,244,500	5.7%	7,244,500	4.0%
Total	**66,771,000**	**52.9%**	**66,771,000**	36.9%

* *Includes Shares held by closely related parties.*

Note: *This does not include any Shares purchased by the Directors in the Offer. Some Directors have expressed an intention to acquire Shares as part of the Offer, see Section 6.1.6 for more information. Shares held prior to Completion of the Offer are those held immediately prior to the transfer to SaleCo. Shares held by the Incentive Scheme Trustee that relate to incentive schemes in which Michael Culhane and Patrick Tuttle are participants are set out in Section 5.3.4 and Mr Culhane's and Mr Tuttle's maximum entitlements to awards under the LTI Scheme are set out in Section 5.3.4.2 (and accordingly these shares and entitlements are not included above).*

On or shortly after Completion, each of the Non-Executive Directors will receive, for nil consideration, a grant of 75,000 options as part of the Director's remuneration package. Each option will entitle the Director to acquire one Share at the Offer Price. The options will vest in three equal tranches on the 12, 24 and 36 month anniversaries of the grant. The options are not subject to any performance or service conditions.

5.3.3 Executive remuneration

5.3.3.1 Co-Group Chief Executive Officers

Details regarding the terms of employment of the Co-Group Chief Executive Officers, Michael Culhane and Patrick Tuttle, are set out below.

Michael Culhane

Term	Description
Employer	Michael Culhane is employed by the Company.
Remuneration package	Under the terms of his employment, Mr Culhane is entitled to receive a base salary of $750,000 per annum. In addition to his base salary, Mr Culhane is entitled to receive 10% in additional superannuation. Mr Culhane's remuneration package will be reviewed by the Board at least once each year.
Short Term Incentive	• In addition to the base salary, Mr Culhane is eligible to receive a short term incentive (**STI**) in respect of each financial year (ending 31 December), with an on-target amount of 100% of his base salary, based on the achievement of objectives set by the Board. In respect of the 2015 financial year: – Mr Culhane's entitlement to receive an STI will be based on set target objectives, including targets relating to strategic objectives of the Group and personal objectives; – Mr Culhane will be entitled to an STI of up to 75% of base salary for acceptable level of achievement against the target objectives and 125% of base salary for stretch performance against the target objectives; and – if Mr Culhane becomes entitled to receive an STI, payment of 20% will be deferred for three years. • Payment of any bonus is subject to deduction of tax in accordance with law.

Term	Description
Long Term Incentive	Mr Culhane is eligible to participate in the Group's long term incentive scheme (**LTI Scheme**).
Other benefits	The Company must provide to Mr Culhane the following benefits in connection with the Executive's Employment: • reimbursement to Mr Culhane for the costs of private health cover up to an agreed amount each year; • car parking of one car at Mr Culhane's place of employment; • provision of a computer and mobile telephone, including payment of associated internet and telephone call and rental charges; • an annual executive health check; and • life insurance and salary continuance cover.
Termination	Mr Culhane's employment may be terminated by either party by giving six months' notice. Mr Culhane's employer may terminate his employment with immediate effect in certain circumstances, where he engages in serious or wilful misconduct, he has been convicted of an offence punishable by imprisonment or he has been dishonest, misleading or deceptive in the course of his dealings with the Board. Mr Culhane's employer can elect to make a payment in lieu of all or part of the notice period equal to Mr Culhane's base salary for that period.
Restraints	Mr Culhane's employment agreement includes: • a post-employment non-competition restraint of trade, which applies in any jurisdiction in which the business operates for up to six months after the termination of his employment and includes a restraint against encouraging any other person to compete against the business; • a post-employment restraint against encouraging, inducing or attempting to encourage or induce any person to terminate their office or employment with his employer or any Group company for a period of six months after the termination of his employment; • a post-employment restraint against soliciting, persuading or otherwise interfering with the relationship between his employer or any Group company and any client, supplier, employee, officer, agent or contractor for six months after the termination of his employment; • a post-employment restraint against knowingly doing anything that will adversely affect the business for six months after the termination of his employment; • a prohibition against using a logo, mark or name substantially the same or deceptively similar to any intellectual property owned by the business; and • a prohibition against assisting or encouraging any person to do any of the things referred to above

Patrick Tuttle

Term	Description
Employer	Patrick Tuttle is employed by the Company.
Remuneration package	Under the terms of his employment, Mr Tuttle is entitled to receive a base salary of $750,000 per annum. In addition to his base salary, Mr Tuttle is entitled to receive 10% in additional superannuation. Mr Tuttle's remuneration package will be reviewed by the Board at least once each year.
Short Term Incentive	• In addition to the base salary, Mr Tuttle is eligible to receive an STI in respect of each financial year (ending 31 December), with an on-target amount of 100% of his base salary, based on the achievement of objectives set by the Board. In respect of the 2015 financial year: – Mr Tuttle's entitlement to receive an STI will be based on set target objectives, including targets relating to strategic objectives of the Group and personal objectives; – Mr Tuttle's will be entitled to an STI of up to 75% of base salary for acceptable level of achievement against the target objectives and 125% of base salary for stretch performance against the target objectives; and – if Mr Tuttle becomes entitled to receive an STI, payment of 20% will be deferred for three years. Payment of any bonus is subject to deduction of tax in accordance with law.
Long Term Incentive	Mr Tuttle is eligible to participate in the Group's LTI Scheme.
Other benefits	The Company must provide to Mr Tuttle the following benefits in connection with Mr Tuttle's employment: • reimbursement to Mr Tuttle for the costs of private health cover up to up to an agreed amount each year; • car parking of one car at Mr Tuttle's place of employment; • provision of a computer and mobile telephone, including payment of associated internet and telephone call and rental charges; • an annual executive health check; and • life insurance and salary continuance cover.
Termination	Mr Tuttle's employment may be terminated by either party by giving six months' notice. Mr Tuttle's employer may terminate his employment without notice and with immediate effect in certain circumstances, including where he engages in serious or wilful misconduct, he has been convicted of an offence punishable by imprisonment or he has been dishonest, misleading or deceptive in the course of his dealings with the Board. Mr Tuttle's employer can elect to make a payment in lieu of all or part of the notice period equal to Mr Tuttle's base salary for that period.
Restraints	Mr Tuttle's employment agreement includes: • a post-employment non-competition restraint of trade, which applies in any jurisdiction in which the business operates for up to six months after the termination of his employment and includes a restraint against encouraging any other person to compete against the business; • a post-employment restraint against encouraging, inducing or attempting to encourage or induce any person to terminate their office or employment with his employer or any Group company for a period of six months after the termination of his employment; • a post-employment restraint against soliciting, persuading or otherwise interfering with the relationship between his employer or any Group company and any client, supplier, employee, officer, agent or contractor for six months after the termination of his employment; • a post-employment restraint against knowingly doing anything that will adversely affect the business for six months after the termination of his employment; • a prohibition against using a logo, mark or name substantially the same or deceptively similar to any intellectual property owned by the business; and • a prohibition against assisting or encouraging any person to do any of the things referred to above.

5.3.3.2 Group Chief Financial Officer

Details regarding the terms of employment of the Group Chief Financial Officer, Cameron Small, are set out below.

Term	Description
Employer	Cameron Small is employed by the Company.
Remuneration package	Under the terms of his employment, Mr Small is entitled to receive a base salary of $400,000 per annum. In addition to his base salary, Mr Small is entitled to receive 9.5% in additional superannuation. Mr Small's remuneration package will be reviewed by the Board at least once each year.
Short Term Incentive	• In addition to the base salary, Mr Small is eligible to receive an STI in respect of each financial year (ending 31 December), with an on-target amount of 75% of his base salary, based on the achievement of objectives set by the Board. In respect of the 2015 financial year: – Mr Small's entitlement to receive an STI will be based on set target objectives, including targets relating to strategic objectives of the Group and personal objectives; – Mr Small will be entitled to an STI of up to 50% of base salary for acceptable level of achievement against the target objectives and 100% of base salary for stretch performance against the target objectives; and – if Mr Small becomes entitled to receive an STI, payment of 20% will be deferred for three years. • Payment of any bonus is subject to deduction of tax in accordance with law.
Long Term Incentive	Mr Small is eligible to participate in the Group's LTI Scheme.
Other benefits	The Company must provide to Mr Small the following benefits in connection with Mr Small's employment: • reimbursement to Mr Small for the costs of private health cover up to an agreed amount each year; • car parking of one car at Mr Small's place of employment; • provision of a computer and mobile telephone, including payment of associated internet and telephone call and rental charges; • an annual executive health check; and • life insurance and salary continuance cover.
Termination	Mr Small's employment may be terminated by either party by giving six months' notice. Mr Small's employer may terminate his employment with immediate effect in certain circumstances, including where he engages in serious or wilful misconduct, where he has been convicted of an offence punishable by imprisonment or has been dishonest, misleading or deceptive in the course of his dealings with the Board. Mr Small's employer can elect to make a payment in lieu of all or part of the notice period equal to Mr Small's base salary for that period.
Restraints	Mr Small's employment agreement also includes: • a post-employment non-competition restraint of trade, which applies in any jurisdiction in which the business operates for up to six months after the termination of his employment and includes a restraint against encouraging any other person to compete against the business; • a post-employment restraint against encouraging, inducing or attempting to encourage or induce any person to terminate their office or employment with his employer or any Group company for a period of six months after the termination of his employment; • a post-employment restraint against soliciting, persuading or otherwise interfering with the relationship between his employer or any Group company and any client, supplier, employee, officer, agent or contractor for six months after the termination of his employment; • a post-employment restraint against knowingly doing anything that will adversely affect the business for six months after the termination of his employment; • a prohibition against using a logo, mark or name substantially the same or deceptively similar to any intellectual property owned by the business; and • a prohibition against assisting or encouraging any person to do any of the things referred to above

5.3.4 Incentive schemes

5.3.4.1 Introduction

The Company has established the Long Term Incentive Scheme (**LTI Scheme**) to assist in the motivation, retention and reward of senior management going forward. The LTI Scheme is designed to align the interests of executives and senior management with the interests of Shareholders by providing an opportunity for the participants to receive an equity interest in the Company.

In addition, the Group has previously established a number of employee incentive schemes (each a **Legacy Scheme**) for employees[37] of the Group in Australia, the United Kingdom, Ireland, Spain and South Korea.

The Company has also established a scheme under which Shares will be issued for nil consideration to eligible employees of members of the Group that were employed by the Group on 31 December 2014, and who remain employed at Completion, and who are not participants in the LTI Scheme or the Legacy Schemes (**Employee Gift Offer**) (refer Section 6.5).

Trusts have been established to operate in connection with the LTI Scheme, the Legacy Schemes and the Employee Gift Offer (**Incentive Scheme Trust**). Computershare Trustees (Ireland) Limited (a company registered in Ireland) and CPU Share Plans Pty Limited (ACN 081 600 875) will be, prior to Completion, the current trustees of those trusts (**Incentive Scheme Trustee**).

5.3.4.2 LTI Scheme

The LTI Scheme offer documents provide the framework under which the LTI Scheme and individual grants will operate, the key terms of which are outlined in the table below.

Eligibility	Awards will be granted to the CEOs and other members of senior management of the Company or its related bodies corporate (or their nominees) who are invited by the Board to participate. Non-executive directors are not entitled to receive awards. Awards will be granted in 2015, 2016 and 2017 (each an **LTI Award**).
Types of securities	The LTI Scheme permits the grant of awards comprising of: • Performance Rights; or • Performance Rights and either Options or Loan Shares. Under the 2015 LTI Award, the combination of Performance Rights and Loan Shares will only be available to participants who are Australian residents.
Performance Rights and Options	Performance Rights are an entitlement to receive a Share for no consideration upon satisfaction of applicable vesting conditions. Options are an entitlement to acquire a Share upon satisfaction of applicable vesting conditions and payment of an applicable exercise price.
Loan Shares	Participants will be provided with a loan from the Company for the sole purpose of subscribing for Loan Shares to be held on trust for them subject to satisfaction of applicable vesting conditions and subject to repayment of the loan and with recourse limited to the Loan Shares. Loans will be interest free and have a term of seven years. Subject to the LTI Scheme offer documents, Loan Shares will remain on trust until the loan period expires at which time the participant must repay the loan within 30 days (failing which the Incentive Scheme Trustee will dispose of sufficient Loan Shares to cover the outstanding amount of the loan).
Offers under the LTI Scheme	The Board has the discretion to set the terms and conditions on which it will offer Performance Rights, Options or Loan Shares in individual offer documents. Offers must be accepted by the participant on an opt-in basis.
Grant Date	The 2015 LTI Award will be made at or shortly after Completion. It is intended that the 2016 LTI Award will be made in January 2016 and the 2017 LTI Award in March 2017. In any case, all of the LTI Awards will be made within three years of the date of listing.

37. And certain associates of employees.

Number of awards and Shares	The maximum number of Shares that would be issued on vesting of the LTI Awards (assuming full vesting) is expected to be approximately 5% of the post listing fully diluted capital of the Company, of which a maximum number of 2,673,943 Shares[38] (representing approximately 1.67% of the post-listing fully diluted capital of the Company) would be issued in connection with the 2015 LTI Award[39]. The maximum number of awards that would be granted to each CEO in connection with their 2015 LTI Award is 96,743 Performance Rights and 209,520 Loan Shares. The maximum number of awards that would be granted to each CEO as their 2016 LTI Award is 50,000 Performance Rights and 108,250 Loan Shares.
Issue price	Unless the Board determines otherwise, Performance Rights and Options will be issued for nil consideration. The exercise price of Options and the subscription price for the Loan Shares under the 2015 LTI Award will be the Offer Price. It is intended that the exercise price for any Options and the subscription price for any Loan Shares granted in subsequent allocations will be calculated based on the volume weighted average price for the Shares over the 15 trading days prior to the grant of the award, or such other period that the Board determines.
Vesting conditions and vesting	Tranches Each LTI Award will vest in three equal tranches (each a **Tranche**) based on the performance of the Group in each of the three consecutive financial years (with the first Tranche vesting in CY2017 in the case of the 2015 and 2016 LTI Awards and in CY2018 in the case of the 2017 LTI Award). Continuing employment condition Each participant must be employed by the Group on the relevant vesting date. Vesting conditions With the exception of the first Tranche of each of the 2015 and 2016 LTI Awards, the vesting conditions for the LTI Awards will be apportioned: (1) as to 50%, to a NPAT growth[40] performance condition (**NPAT Vesting Entitlement**), and (2) as to 50%, to a Return on Equity (**ROE**)[41] performance condition (**ROE Vesting Entitlement**), each a **Vesting Entitlement**. The Vesting Entitlement for a performance condition will apply to each security class (i.e. Performance Rights, Options and Loan Shares) offered under the award as set out below. For the NPAT performance condition of the first Tranche of the 2015 and 2016 LTI Awards, vesting will occur on achievement of a 25% increase, or greater, in NPAT for CY2016 relative to CY2015. For all other Tranches, vesting is as follows. **NPAT (Tranche 2 and Tranche 3 of 2015 and 2016; and Tranches 1, 2 and 3 of 2017)**

NPAT performance condition (percentage increase on prior year NPAT)	% of NPAT Vesting Entitlement attributable to NPAT performance condition
Less than 15%	Nil
15% – 17.49%	30% + 0.08% for each basis point in excess of 15% up to 17.49% (rounded to the nearest whole number)
17.5% – 19.99%	65% + 0.08% for each basis point in excess of 17.5% up to 19.99% (rounded to the nearest whole number)
20% or greater	100%

38. Arising from 1,312,060 Performance Rights and 1,361,883 Loan Shares.
39. The CY2015 pro forma share-based expense ($2.0 million) in relation to the LTI Scheme reflects the first grant (2015 LTI Award) to be awarded through a combination of Performance Rights and Loan Shares. The expense is based on the value of the grant's individual vesting tranches (1st tranche in 2017, 2nd tranche in 2018 and 3rd tranche in 2019) amortised from the grant date to the respective vesting date for each of the three tranches. The initial value of the grant is determined by a number of different factors including the performance hurdles, the type of instrument granted (i.e. Performance Rights, Loan Shares) and terms attached to the instruments granted. Future share-based expenses will likely differ from the CY2015 expense due to a number of factors including additional grants under future schemes, movements in Share price, vesting conditions, etc.
40. NPAT for this purpose will generally be Adjusted NPAT as defined in this Prospectus, but will also be adjusted for NPAT arising from new equity raised for acquisitions. For the purpose of CY2015, NPAT will be calculated in the same manner as Pro Forma Forecast NPAT (subject to any adjustment for equity raised for acquisitions, if relevant) as set out in Section 3. References to NPAT in this section are to be read in accordance with the foregoing.
41. NPAT divided by average shareholder equity adjusted for dividends paid and new equity raised for acquisitions.

Vesting conditions and vesting (cont.)

ROE (Tranches 1, 2 and 3)

ROE performance condition	% of ROE Vesting Entitlement attributable to ROE performance condition
Less than 12%	Nil
12% – 15.99%	30% + 0.05% for each basis point in excess of 12% up to 15.59% (rounded to the nearest whole number)
16% – 19.99%	65% + 0.05% for each basis point in excess of 16% up to 19.99% (rounded to the nearest whole number)
20% or greater	100%

The Vesting Entitlement for each performance condition is subject to retesting based on the Group's average performance against that performance condition over combined first and second Tranche periods and combined first, second and third Tranche periods respectively.

To the extent that any Performance Rights do not vest after retesting, they will lapse. To the extent that any Loan Shares do not vest after retesting, they will be forfeited and the corresponding loan obligation is extinguished.

Rights associated with Performance Rights and Options

Unless the Board determines otherwise, a Performance Right or Option does not confer any right to vote, attend meetings of or participate in a distribution of profit or a return of capital by before vesting.

Rights associated with Loan Shares

The rights of participants with respect to their Loan Shares will be governed by the terms of the Incentive Scheme Trust for as long as those Shares are held on trust. While the Loan Shares are held on trust, participants will be entitled to the income received on those Shares but, subject to the terms of the Incentive Scheme Trust, will not be entitled to vote those Shares. The Incentive Scheme Trustee will be entitled to vote the Loan Shares it holds on trust pursuant to the LTI Scheme.

Any income received on Loan Shares while held on trust will be applied towards satisfaction of any outstanding loan amount relating to those Loan Shares except to the extent of a provision made for the participant to satisfy tax obligations in relation to such income.

Restrictions on dealing

Participants must not sell, transfer, encumber, hedge or otherwise deal with unvested Performance Rights, Options or Loan Shares. These restrictions also apply to vested Loan Shares in respect of which a loan is still outstanding.

Subject to the requirements of the Company's Securities Dealing Policy, the participant will be free to deal with the Shares allocated on vesting of Performance Rights and exercise of Options, or vested Loan Shares in respect of which the loan has been repaid.

Cessation of employment

If the participant ceases employment for cause, unless the Board determines otherwise, any unvested LTI Awards will lapse or be forfeited as appropriate.

In all other circumstances:

- unless the Board determines otherwise, a pro rata portion of the unvested Tranche of LTI Awards for the financial year in which the participant ceases employment (calculated by reference to the portion of the relevant financial year that has elapsed up to the date of their cessation) will remain on foot and will vest in due course if the performance conditions are achieved (save that the continuing employment and retesting conditions will not apply); and
- any unvested LTI Awards will automatically lapse or be forfeited.

Where Loan Shares are forfeited, the corresponding loan obligation will be extinguished and any voluntary repayments that the participant has made against the loan (other than as result of dividends paid and applied to the repayment of the loan by the Company) will be repaid to the participant. The Incentive Scheme Trustee will deal with any forfeited Loan Shares in accordance with the directions given by the Company pursuant to the terms of the LTI Scheme documents.

Clawback and preventing inappropriate benefits	The Board has broad clawback powers if, among other things: • the participant has acted fraudulently or dishonestly, or is in breach of their obligations to any member of the Group; or • the participant's entitlements vest as a result of the fraud, dishonesty or breach of obligations of any other person and the Board is of the opinion that the incentives would not have otherwise vested.
Takeover event	In the event of a takeover event, the Board has discretion to vest any Performance Rights, Options or Loan Shares on a pro rata basis, based on performance against the performance conditions up to the date of the change of control. Where only some of the Performance Rights, Options or Loan Shares are vested on a change of control, the remainder of the Performance Rights, Options and Loan Shares will immediately lapse or be forfeited (as the context requires). The Board also has discretion to agree that a participant will instead receive shares in a company that has obtained control of the Company on vesting of Performance Rights or Options.
Reconstructions, corporate actions, rights issues, bonus issues, etc	Loan Shares will participate in any reconstructions, corporate actions, rights issues, bonus issues in the same way as Shares. A participant cannot participate in new issues of securities by the Company prior to vesting of the Performance Rights or Options. However, the LTI Scheme offer documents include specific provisions dealing with bonus issues of Shares or capital reorganisation (including consolidation, subdivision, reduction or return). These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their Performance Rights or Options as a result of such corporate actions.
Other terms	The LTI Scheme offer documents contain customary and usual terms for dealing with administration, variation, suspension and termination of the LTI Scheme.

5.3.4.3 Legacy schemes

The text below describes the securities and entitlements held by participants under the Legacy Schemes immediately prior to Completion.

General legacy schemes

Under Legacy Schemes rolled out in 2013 and 2015 (**General Legacy Schemes**), participants purchased a beneficial interest in Shares to be held on trust (**General Legacy Scheme Entitlements**). The Shares will continue to be held on trust subject to escrow obligations connected with the Offer described in Section 8.6. Once the Shares are released from escrow participants will be entitled to direct the Incentive Scheme Trustee to deal with the Shares on their behalf (with the exception of certain Shares issued under the 2015 General Legacy Scheme which remain subject to forfeiture conditions, which if not satisfied result in forfeiture).

While the Shares the subject of the General Legacy Schemes are held in trust, participants will be entitled to any income on those Shares but will not be entitled to vote those Shares. The Incentive Scheme Trustee is entitled to vote the Shares held by it on trust.

The total number of Shares on issue under the General Legacy Schemes is 1,920,500. Details of material entitlements held directly or indirectly by individual employees are set out below.

General legacy scheme entitlements	
Patrick Tuttle	117,500
Michael Culhane	67,500
Cameron Small	63,000

Global legacy scheme

Under a separate Legacy Scheme conducted in 2015 (the **Global Legacy Scheme**), certain participants (or their nominees) have been granted global legacy shares and global legacy units, each issued for nil consideration.

Global legacy shares are Shares that are held on trust by the Incentive Scheme Trustee for a participant, subject to dealing restrictions up until 1 January 2018[42] and escrow obligations connected with the Offer described on Section 8.6. Once the dealing restrictions have been lifted and the Shares are released from escrow, subject to the requirements of the Company's Securities Dealing Policy, participants will be entitled to direct the Incentive Scheme Trustee to deal with the global legacy shares on their behalf. While global legacy shares are held on trust, participants have the right to receive income on those Shares but will not be entitled to vote those Shares. The Incentive Scheme Trustee will be entitled to exercise the voting rights in respect of global legacy shares for so long as it holds those Shares on trust. Global legacy shares are not subject to forfeiture.

Global legacy units are units in the Incentive Scheme Trust. Participants have entitlements to income, subject to Incentive Scheme Trustee discretion, in respect of other Shares held in the Incentive Scheme Trust in respect of those units (**corresponding shares**) for so long as the global legacy units are held or until vesting of global legacy units. Vesting occurs on 1 January 2018 (**Vesting Date**) if the participant satisfies the conditions that he/she has not supplied certain restricted products or services, or disclosed confidential information of the Group, to a competitor of the Group on or before the Vesting Date. If the vesting conditions are satisfied, the global legacy units will be redeemed for corresponding shares on a one-for-one basis. The corresponding shares received by a participant on redemption of their global legacy units will not be subject to forfeiture and each participant will, subject to the requirements of the Company's Securities Dealing Policy, be entitled to direct the Incentive Scheme Trustee to deal with the corresponding shares on their behalf.

If the vesting conditions are not satisfied or are incapable of satisfaction on the Vesting Date, all of a participant's global legacy units will be cancelled when the vesting conditions cease to be satisfied and that participant will not receive the corresponding shares. In such circumstances, the Incentive Scheme Trustee will deal with the corresponding shares in accordance with the directions given by the Company pursuant to the terms of the Global Legacy Scheme.

Each participant will be entitled to elect for the Incentive Scheme Trustee to sell into the Offer up to 45%[43] of the total number of global legacy shares and corresponding shares held by the Incentive Scheme Trustee in respect of that participant in the Global Legacy Scheme. If a participant does not elect to have the full permitted number of global legacy shares and corresponding shares sold into the Offer, the Company will have the discretion to later lift the disposal restrictions and escrow obligations relating to the remaining balance of that permitted number to pay, or finance the payment, of tax liabilities in connection with the participant's participation in the Global Legacy Scheme.

The total number of Shares the subject of the Global Legacy Scheme is 8,526,500. Of the total number of Shares held by the Incentive Scheme Trustee in respect of each participant in the Global Legacy Scheme, 70% are not "at risk" (being the global legacy shares) and 30% are "at risk" (being the corresponding shares).

5.3.4.4 Employee Gift Offer

Shares offered under the Employee Gift Offer will be issued to Eligible Employees at or shortly after Completion for nil consideration in parcels of up to $1,000 in value (based on the Offer Price) per Eligible Employee, or such other number that the Board considers appropriate.

Employee Gift Offer Shares will be held for Eligible Employees by the Incentive Scheme Trustee on trust for a three year holding period (unless their employment terminates earlier in which case the Employee Gift Offer Shares will be released). Once the holding period ends or the Employee Gift Offer Shares are released, Eligible Employees will, subject to the requirements of the Company's Securities Dealing Policy, be free to deal with the Shares.

Employee Gift Offer Shares are not subject to forfeiture. Eligible Employees will be entitled to the income received on Employee Gift Offer Shares but, subject to the terms of the Incentive Scheme Trust, will not be entitled to vote those Shares. The Incentive Scheme Trustee will be entitled to vote the Employee Gift Offer Shares it holds on trust pursuant to the Employee Gift Offer.

5.3.4.5 Executive loans under the legacy management incentive scheme

Certain members of management, including Cameron Small, are parties to limited-recourse loan agreements with the Company, pursuant to which the Company loaned them monies to facilitate the exercise of options to acquire Shares in connection with an employee incentive scheme.

These Shares are subject to a lien until such time as the outstanding loan amount is repaid in full. These Shares are also subject to escrow arrangements (see Section 8.6).

42. Or in some cases a longer period as set out in the relevant invitation letter.

43. Or in some cases a lesser amount as set out in the relevant invitation letter.

The total value of the outstanding loan to Cameron Small is $800,414 and relates to 1,362,500 Shares. The total value of the outstanding loans to the other members of management is $1,960,583 and relates to 1,362,500 Shares.

Another member of management is party to a limited-recourse loan agreement with PEPL Holdings Pty Ltd (**PEPL**), pursuant to which PEPL loaned the executive monies to facilitate the acquisition of shares in PEPL (which will be exchanged for Shares in the Company as part of the pre-Offer restructure) in connection with an employee incentive scheme. The total value of the outstanding loan is $1,100,775 and relates to 424,500 Shares on exchange of the shares held in PEPL.

5.4 Corporate governance

This section explains the main policies and practices adopted by the Company. Details of the Company's key policies and practices and the charters for the Board and each of its Committees are available at www.peppergroup.com.au.

The Board monitors the operational and financial position and performance of the Company and oversees its business strategy including approving the strategic objectives, plans and budgets of the Company. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of the Company. In conducting the Company's business with these objectives, the Board seeks to ensure that the Company is properly managed to protect and enhance Shareholder interests, and that the Company, its Directors, officers and employees operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing the Company, including adopting relevant internal controls, risk management processes and corporate governance policies and practices that it believes are appropriate for the Company's business and that are designed to promote the responsible management and conduct of the Company. The main policies and practices adopted by the Company, which will take effect from Listing, are summarised below.

5.4.1 ASX Corporate Governance Council's principles and recommendations

The Company is seeking a listing on ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations (**ASX Recommendations**) for ASX listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, the Company will be required to provide a statement in its annual report or on its website disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where the Company does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

The Company intends to comply with all of the ASX Recommendations from the time of Listing, with the exception of the following matters.

- ASX Recommendation 2.5 provides that the Chairman of the Company should be an independent Director. The Non-Executive Chairman, Seumas Dawes, is not considered by the Board to be an independent Director given that he is a substantial shareholder of the Company. Despite this, the Board believes that Mr Dawes is the most appropriate person to lead the Board as its Non-Executive Chairman given his expertise and global experience investing in the finance sector. The Board considers that Mr Dawes adds significant value to its deliberations and expects that he will continue to bring objective and independent judgement to the Board's deliberations.
- The Company will not meet ASX Recommendations in respect of the composition of its Board (ASX Recommendation 2.4) and Remuneration and Nomination Committee (ASX Recommendations 2.1 and 8.1). ASX Recommendation 2.4 provides that the Board should be comprised of a majority of independent Directors. The Board is comprised of six Directors, of whom three Directors are considered independent Non-Executive Directors (Des O'Shea, Melanie Willis and Matthew Burlage) and a further Director considered to be a (non-independent) Non-Executive Director (the Chairman, Mr Dawes). Additionally, ASX Recommendations 2.1 and 8.1 provide, respectively (and among other matters), that the chair of the Company's Nomination Committee and Remuneration Committee should be an independent Director. The Non-Executive Chairman, Mr Dawes, is proposed to chair the Remuneration and Nomination Committee, a role he held prior to the listing of the Company. The Board considers that its proposed Board and Remuneration and Nomination Committee composition is appropriate in light of the Company's operations and size. All of the Directors believe that they will able to, individually and collectively, analyse the issues before them objectively in the best interests of all Shareholders and in accordance with their duties as Directors. The Board further considers that Mr Dawes is the most appropriate person to chair the Remuneration and Nomination Committee given his past experience in the role and, more broadly, his considerable industry experience and expertise.

5.4.2 Board of Directors

The Board of Directors is comprised of the two Co-Group Chief Executive Officers and four Non-Executive Directors, of whom three are independent. Detailed biographies of the Directors are provided in Section 5.1.

The Board considers an independent Director to be a Non-Executive Director who is not a member of the Company's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgement. The Board will consider the materiality of any given relationship on a case-by-case basis and has adopted guidelines to assist in this regard. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

The Board Charter sets out guidelines adopted by the Board for the purpose of determining the independence of Directors in accordance with the ASX Recommendations and the Board has adopted a definition of independence that is based on that set out in the ASX Recommendations. The Board will have regard to quantitative and qualitative principles of materiality for the purpose of determining "independence" on a case-by-case basis.

Three of the six members of the Board are Non-Executive Directors who are considered independent. The Board considers that each of Des O'Shea, Melanie Willis and Matthew Burlage are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the exercise of the Director's unfettered and independent judgement and that each is able to fulfil the role of independent Director for the purpose of the ASX Recommendations.

Seumas Dawes, Michael Culhane and Patrick Tuttle are currently considered by the Board not to be independent.

Mr Culhane and Mr Tuttle are currently the Co-Group Chief Executive Officers of the Company and therefore are not considered independent. Mr Dawes is a substantial shareholder of the Company and is therefore not considered independent.

Although Mr Dawes is not considered to be independent, the Board considers that he adds significant value to deliberations with his considerable experience and skills. The Board believes that Mr Dawes will bring objective and independent judgement to the Board's deliberations. Furthermore, all Directors have the right to seek independent professional advice, subject to necessary approvals, as and when required.

The Directors believe that they are able to objectively analyse the issues before them in the best interests of all Shareholders and in accordance with their duties as Directors.

5.4.3 Board Charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which includes an overview of:

- Board composition and process;
- the relationship and interaction between the Board and Management; and
- the authority delegated by the Board to Management and Board Committees.

The Board's role is to:

- represent and serve the interests of Shareholders by overseeing and appraising the Company's strategies, policies and performance. This includes overseeing the financial and human resources the Company has in place to meet its objectives and reviewing Management performance;
- protect and optimise the Company's performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards); and
- ensure that Shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

The management function is conducted by, or under the supervision of, the Co-Group Chief Executive Officers as directed by the Board (and by officers to whom the management function is properly delegated by the Co-Group Chief Executive Officers). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time they consider it appropriate.

The Board collectively, and individual Directors, may seek independent professional advice subject to the approval of the Chairman.

The Company Secretary of the Company is John Williams.

5.4.4 Board Committees

The Board may from time to time establish appropriate Committees to assist in the discharge of its responsibilities. The Board has established an Audit and Risk Committee and a Remuneration and Nomination Committee.

Other Committees may be established by the Board as and when required. Membership of Board Committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

Under the Board Charter, Board Committee performance evaluations will occur annually.

Audit and Risk Committee

The Audit and Risk Committee will assist the Board in carrying out its accounting, auditing, and financial reporting responsibilities including:

- overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the Company's relationship with the internal auditor and the internal audit function generally;
- overseeing the preparation of the financial statements and reports;
- overseeing the Company's financial controls and systems; and
- managing the process of identification and management of risk.

The Committee's charter provides that the Committee must comprise only Non-Executive Directors, a majority of independent Directors, an independent chair who is not chair of the Board, and a minimum of three Directors. The Audit and Risk Committee will comprise:

- Des O'Shea (Chair);
- Matthew Burlage; and
- Melanie Willis.

Non-Committee members, including members of Management and the external auditor, may attend meetings of the Committee by invitation of the Committee chair.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for final approval of matters relating to succession planning, nomination of Directors and Chief Executive Officers and remuneration of the Directors, the Co-Group Chief Executive Officers and executives reporting to them.

The responsibilities of the Remuneration and Nomination Committee include:

- assisting the Board to develop a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership;
- reviewing and recommending to the Board the size and composition of the Board, including review of Board succession plans and the succession of the Chairman and Co-Group Chief Executive Officers, having regard to the objective that the Board comprise Directors with a broad range of skills, expertise and experience from a spectrum of backgrounds, including gender;
- reviewing and recommending to the Board the criteria for Board membership, including the necessary and desirable competencies of Board members and the time expected to be devoted by Non-Executive Directors in relation to the Company's affairs;
- reviewing and recommending to the Board the composition and membership of the Board, including making recommendations for the re-election of Directors, subject to the principle that a Committee Member must not be involved in making recommendations to the Board in respect of themselves;
- assisting the Board as required to identify individuals who are qualified to become Board members;
- assisting the Board as required in relation to the performance evaluation of the Board, its Committees and individual Directors, and in developing and implementing plans for identifying, assessing and enhancing Director competencies;
- reviewing and making recommendations in relation to any corporate governance issues, as requested by the Board from time to time;

- ensuring that an effective Director induction process is in place and regularly review its effectiveness and provide appropriate professional development opportunities for Directors;
- assessing the Company's progress towards the achievement of the measurable objectives set under the Board Diversity and Inclusion Policy and any strategies aimed at achieving the objectives on an annual basis;
- reporting to the Board recommending any changes to the measurable objectives set under the Diversity and Inclusion Policy, strategies or the way in which they are implemented; and
- in accordance with the Diversity and Inclusion Policy, on an annual basis, reviewing the relative proportion of women and men on the Board, in senior management positions and in the workforce at all levels of the Group, and submitting a report to the Board, which outlines the Committee's findings or, if applicable, providing the Board with the Company's most recent indicators as required by the *Workplace Gender Equality Act 2012* (Cth).

The current members of the Committee are:

- Seumas Dawes (Chair);
- Matthew Burlage; and
- Des O'Shea.

5.4.5 Diversity and Inclusion Policy

The Board has formally approved a Diversity and Inclusion Policy in order to address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative Management and leadership structure.

The Board will include in the annual report each year a summary of the Company's progress towards achieving the measurable objectives set out under the Diversity and Inclusion Policy for the year to which the annual report relates and details of the measurable objectives set under the Diversity and Inclusion Policy for the subsequent financial year.

5.4.6 Continuous Disclosure Policy

The Company places a high priority on communication with Shareholders and is aware of the obligations it will have, once listed, under the Corporations Act and the ASX Listing Rules, to keep the market fully informed of any information the Company becomes aware of concerning itself which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares.

The Company has adopted a Continuous Disclosure Policy which establishes procedures to ensure that Directors and employees are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

The Company is committed to observing its disclosure obligations under the ASX Listing Rules and Corporations Act. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and continuous disclosure announcements will be made available on the Company's website at www.peppergroup.com.au.

5.4.7 Securities Dealing Policy

The Company has adopted a Securities Dealing Policy which is intended to explain the types of dealings in securities that are prohibited under the Corporations Act and establish a best practice procedure for the buying and selling of securities that protects the Company and Directors and employees against the misuse of unpublished information which could materially affect the value of securities.

The policy applies to all directors, officers, senior executives and employees of the Company and its related bodies corporate and their connected persons.

The policy provides that relevant persons must not deal in Shares:

- when they are in possession of price-sensitive information;
- on a short term trading basis; and
- during trading blackout periods (except in exceptional circumstances).

Otherwise, trading will only be permitted in trading windows or in all other periods by:

- Directors with prior written approval from the Chairman of the Board;
- the Chairman of the Board with prior written approval from the Board or the Chairman of the Audit and Risk Committee; and
- senior executives with prior written approval from one of the Co-Group Chief Executive Officers.

5.4.8 Code of Conduct

The Board is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal Code of Conduct that outlines how the Company expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards. All employees of the Company (including temporary employees, contractors and Directors) must comply with the Code of Conduct.

The Code is designed to:

- provide a benchmark for professional behaviour throughout the Company;
- support the Company's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the policy.

5.4.9 Communication strategy

The Company's aim is to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of the Company. In addition to the Company's continuous disclosure obligations, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time and the Company will communicate this information regularly to Shareholders and other stakeholders through a range of forums and publications.

All ASX announcements made to the market, including annual and half year financial results, will be posted on the Company's website at www.peppergroup.com.au as soon as practicable following their release by ASX. The full text of all notices of meetings and explanatory material, the Company's annual report and copies of all investor presentations made to analysts and media briefings will be posted on www.peppergroup.com.au.

5.4.10 Related party transactions

Other than as disclosed in this Prospectus, Pepper is not party to any material related party arrangements.

06.

Details of the Offer

06. DETAILS OF THE OFFER

6.1 The Offer

This Prospectus relates to an Initial Public Offering of 55.9 million Shares, comprising an issue of 53.5 million New Shares by the Company and the sale of 2.3 million Existing Shares held by SaleCo at an Offer Price of $2.60 per Share. The total number of Shares on issue at Completion of the Offer will be 181.1 million[44] and all Shares will rank equally with each other. The Shares offered under this Prospectus will represent approximately 30.8% of the Shares on issue on Completion of the Offer.

At the Offer Price, the Offer will raise $144.5 million of total proceeds, comprising $138.4 million from the issue of New Shares by Pepper and $6.1 million from the sale of Existing Shares by SaleCo.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

6.1.1 Structure of the Offer

The Offer comprises:

- the Broker Firm Offer, which is open only to Australian resident investors who are not Institutional Investors and who receive a firm allocation of Shares from their Broker;
- the Institutional Offer, which consists of an invitation to bid for Shares made to Institutional Investors in Australia, and a number of other eligible jurisdictions;
- the Employee Gift Offer, which is open only to Eligible Employees;
- the Personnel Offer, which is open only to Eligible Employees; and
- the Priority Offer, which is open to selected Australian resident and overseas retail investors as agreed between the Company and the Joint Lead Managers.

No general public offer of Shares will be made under the Offer. The allocation of Shares between the Broker Firm Offer, the Institutional Offer, the Personnel Offer and the Priority Offer will be determined by the Joint Lead Managers in agreement with the Company, SaleCo and the Financial Adviser, having regard to the allocation policy outlined in Sections 6.3.5, 6.4.2 and 6.6.

The Offer (with the exception of the Employee Gift Offer) has been fully underwritten by the Joint Lead Managers. A summary of the Underwriting Agreement, including the events which would entitle the Joint Lead Managers to terminate the Underwriting Agreement, is set out in Section 8.5.1.

6.1.2 Purpose of the Offer and use of proceeds

The purpose of the Offer is to:

- raise capital to repay Pepper's existing corporate debt and strengthen its balance sheet;
- provide the Company with access to equity capital markets, which it expects will give it added financial flexibility to pursue further growth opportunities;
- provide an opportunity for institutional and retail investors to become Shareholders in the Company;
- allow the Incentive Scheme Trustee[45] to realise part of its holding in the Company primarily to enable participants in the Legacy Schemes to meet tax obligations arising in connection with the Offer;
- provide Pepper with the benefits of an increased profile that arises from being a listed entity; and
- assist Pepper in attracting and retaining quality staff.

44. Includes 0.3 million Shares relating to the Employee Gift Offer to be issued under the Offer and 1.4 million Shares relating to the LTI Scheme, each to be issued to the Incentive Scheme Trustee on or shortly after Completion.

45. Shares held by the Incentive Scheme Trustee are in connection with the Legacy Schemes and, on or after Completion of the Offer, the LTI Scheme and Employee Gift Offer. Refer to Section 5 for more information.

6.1.3 Sources and uses of funds

The Offer is expected to raise gross proceeds of approximately $144.5 million. Assuming Completion of the Offer occurs on Wednesday, 5 August 2015, this amount will be applied as follows:

- $123.0 million will be used by the Company to repay existing debt facilities;
- $6.1 million will be paid to the Incentive Scheme Trustee who will have sold Existing Shares to SaleCo; and
- $15.4 million will be used to pay the Offer costs.

The following table details the Company's sources of funds (including the Offer) and the uses of those amounts, assuming Completion of the Offer occurs on Wednesday, 5 August 2015.

Table 51: Sources and uses of funds

Sources of funds	$ millions	%
Cash proceeds received from the issue of New Shares by the Company under the Offer	138.4	95.8%
Cash proceeds received from the sale of Existing Shares	6.1	4.2%
Total sources	**144.5**	**100.0%**

Uses of funds	$ millions	%
Payment of proceeds to the Incentive Scheme Trustee	6.1	4.2%
Repayment of existing debt facilities	123.0	85.1%
Payment of the Offer costs	15.4	10.7%
Total uses	**144.5**	**100.0%**

6.1.4 Pro Forma balance sheet

The Company's Pro Forma balance sheet following Completion of the Offer, including details of the Pro Forma adjustments, is set out in Section 3.

6.1.5 Capital structure

The Group's indebtedness as at 31 December 2014, both before and adjusted to reflect the Offer, is set out in Section 3.

6.1.6 Shareholding structure

The details of the ownership of Shares immediately prior to the Offer, and on Completion of the Offer, are set out in the table below.

Table 52: Shareholding structure

	Notes	Shareholding prior to Completion of the Offer (Shares) (m) and (%)	Shareholding following Completion of the Offer (Shares) (m) and (%)
Existing Shareholders			
Non-Executive Director Shareholders	*1, 2, 3*	51.3m 40.7%	51.3m 28.3%
Management Shareholders	*1, 2*	31.0m 24.6%	31.0m 17.1%
Incentive Scheme Trustee Shareholders	*1, 4*	10.4m 8.3%	9.8m 5.4%
Other Existing Shareholders	*1, 2*	33.5m 26.5%	33.5m 18.5%
New Shareholders		**0.0m** **0.0%**	**55.6m** **30.7%**

1. *These Shares held at Completion of the Offer will be subject to voluntary escrow arrangements as set out in Section 8.6, other than 1.4 million Shares and 0.3 million Shares relating to the LTI Scheme and Employee Gift Offer (respectively) to be issued to the Incentive Scheme Trustee on or shortly after Completion.*
2. *Excludes any Shares in which these Shareholders, or their closely related parties, may acquire an interest as part of the Offer at the Offer Price. Shares acquired under the Offer will not be subject to voluntary escrow arrangements. Some Non-Executive Director Shareholders, Management Shareholders and Other Existing Shareholders have expressed an intention to acquire Shares as part of the Offer, see below for more information.*
3. *Includes Shares held by Seumas Dawes and Rose Capital Pty Ltd (a closely related party of Mr Dawes).*
4. *2.3 million Shares held by the Incentive Scheme Trustee will be sold as part of the Offer primarily to enable participants (i.e. Management and their closely related parties) in the Legacy Schemes to meet tax obligations arising in connection with the Offer. The Incentive Scheme Trustee's Shareholding following Completion of the Offer includes 1.4 million Shares to be issued to the Incentive Scheme Trustee on or shortly after Completion of the Offer in connection with the LTI Scheme and 0.3 million Shares to be issued to the Incentive Scheme Trustee on or shortly after Completion in connection with the Employee Gift Offer. See Sections 5.3.4 and 6.5 for more information.*

Note: Shares held prior to Completion of the Offer are those held immediately prior to the transfer to SaleCo.

The above table does not include any Shares which may be acquired as part of the Offer. A number of Non-Executive Director Shareholders, Management Shareholders and Other Existing Shareholders have indicated that they (either directly or via closely related parties) currently intend to acquire additional Shares as part of the Offer including the following Directors: Seumas Dawes, Des O'Shea, Melanie Willis, Michael Culhane and Patrick Tuttle. Based on these indications these Shareholders have expressed an interest in acquiring in aggregate up to approximately 6 million Shares in the Offer. The Company and JLMs have absolute discretion regarding allocations of Shares under the Offer (refer to Sections 6.4 and 6.6). Any additional Shares acquired by these Shareholders under Offer will not be subject to voluntary escrow arrangements (as set out in Section 8.6).

6.1.7 Control implications of the Offer

While the Management and Board Shareholders are expected to hold 45.4% of the Shares on issue on Completion of the Offer, the Directors do not expect any Shareholders to control the Company (as defined in Section 50AA of the Corporations Act) on Completion of the Offer.

6.1.8 Potential effect of the fundraising on the future of the Company

The Directors believe that on Completion of the Offer, the Company will have sufficient funds available to fulfil the purpose of the Offer and meet its stated business objectives.

6.2 Terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Fully paid ordinary shares in the Company.
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to these, is set out in Section 6.13.
What is the consideration payable for each security being offered?	The Offer Price is $2.60 per Share.
What is the Offer Period?	The key dates, including details of the Offer Period, are set out in page 4. No Shares will be issued on the basis of this Prospectus later than the Expiry Date of 13 months after the Prospectus Date.
What are the cash proceeds to be raised?	Approximately $144.5 million will be raised under the Offer based on the Offer Price if the Offer proceeds.
What is the minimum and maximum Application Amount under the Broker Firm Offer?	Applicants under the Broker Firm Offer should contact their Broker about the minimum and maximum Application Amount. The Company, SaleCo, the Joint Lead Managers and the Financial Adviser reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for, in their absolute discretion. There is no maximum value of Shares that may be applied for under the Broker Firm Offer.
What is the minimum and maximum Application Amount under the Personnel Offer and the Priority Offer?	Applications under the Personnel Offer and the Priority Offer must be for a minimum of $2,000 worth of Shares. The Company, SaleCo, the Joint Lead Managers and the Financial Adviser reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for, in their absolute discretion.
What is the minimum and maximum Application Amount under the Employee Gift Offer?	Under the Employee Gift Offer, Eligible Employees will be offered the opportunity to apply for up to $1,000 worth of Shares at no cost.
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, the Institutional Offer, the Personnel Offer and the Priority Offer will be determined by the Joint Lead Managers in agreement with the Company, SaleCo and the Financial Adviser, having regard to the allocation policy outlined in Sections 6.3.5, 6.4.2 and 6.6. With respect to the Broker Firm Offer, it will be a matter for the Brokers to determine how they allocate Shares among their eligible retail clients, and they (and not the Company, SaleCo, the Financial Adviser or the Joint Lead Managers) will be responsible for ensuring that eligible retail clients who have received an allocation from them receive the relevant Shares. The allocation of Shares under the Institutional Offer will be determined by the Joint Lead Managers in consultation with the Company, SaleCo and the Financial Adviser. The Broker Firm Offer, Institutional Offer, Personnel Offer and Priority Offer are not open to investors in the United States.

Topic	Summary
What is the allocation policy? (cont.)	The Employee Gift Offer will be offered to Eligible Employees only who will be offered the opportunity to apply for up to $1,000 worth of Shares at no cost. The allocation of Shares under the Employee Gift Offer is guaranteed to Eligible Employees. For further information on the: • Broker Firm Offer, see Section 6.3; • Institutional Offer, see Section 6.4; • Employee Gift Offer, see Section 6.5; and • Personnel Offer and Priority Offer, see Section 6.6.
Will the securities be listed?	Yes. The Company has applied to ASX for admission to the Official List of, and quotation of its Shares by, ASX under the code "PEP". Completion of the Offer is conditional on ASX approving the application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act. The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.
When are the securities expected to commence trading?	It is expected that trading of the Shares on ASX will commence on or about Friday, 31 July 2015, initially on a conditional and deferred settlement basis. Trades occurring on ASX before Settlement will be conditional on the issue and transfer of Shares, and Settlement occurring. Conditional trading will continue until the Company has advised ASX that: • Settlement has occurred; and • the Company has issued Shares, and SaleCo has transferred Shares, to Successful Applicants under the Offer, which is expected to be on or about Wednesday, 5 August 2015. Normal settlement basis trading is expected to commence on or about Friday, 7 August 2015. If Settlement has not occurred within 14 days (or such longer period as ASX allows) after the day Shares are first quoted on ASX, the Offer and confirmations of allocations will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect. **It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk.** The Company, SaleCo, the Joint Lead Managers, the Financial Adviser and the Existing Shareholders disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them, by the Pepper Offer Information Line, by a Broker or otherwise.
When will I receive confirmation of whether my Application has been successful?	It is expected that initial holding statements will be mailed to Successful Applicants by standard post on or about Thursday, 6 August 2015. Refunds (without interest) to Applicants who make an Application and receive an allocation of Shares, the value of which is smaller than the amount of the Application Monies, will be made as soon as practicable after Completion of the Offer.

Topic	Summary
Is the Offer underwritten?	Yes. The Joint Lead Managers have fully underwritten the Offer (with the exception of the Employee Gift Offer). Details are provided in Section 6.7.
Are there any escrow arrangements?	Yes. Details are provided in Section 8.6.
Has any ASX confirmation or ASIC modification been obtained or been relied on?	Yes. Details are provided in Section 6.11.
Are there any taxation considerations?	Yes. Details are provided in Section 8.10.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. See Section 8.5 for details of various fees payable by the Company and SaleCo to the Joint Lead Managers and by the Joint Lead Managers to certain Brokers.
What should you do with any enquiries?	Please call the Pepper Offer Information Line on 1300 385 439 (inside Australia) or +61 3 9415 4383 (outside Australia) from 9.00am until 5.00pm Monday to Friday during the Offer Period. If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

6.3 Broker Firm Offer

6.3.1 Who can apply?

The Broker Firm Offer is open to persons who have received a firm allocation of Shares from their Broker and who have a registered address in Australia or New Zealand. Investors who are offered a firm allocation by a Broker will be treated as an Applicant under the Broker Firm Offer in respect of that allocation.

Investors should contact their Broker to determine whether they may be allocated Shares under the Broker Firm Offer. The Broker Firm Offer is not open to persons in the United States.

6.3.2 How to apply?

Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus, or any supplementary or replacement prospectus. If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the Broker from whom you received your firm allocation. Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. **The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus**.

Applicants under the Broker Firm Offer should contact their Broker about the minimum and maximum Application Amount. The Company, SaleCo, the Joint Lead Managers and the Financial Adviser reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person. The Company may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer Application procedures or requirements, in its discretion in compliance with applicable laws.

Applicants under the Broker Firm Offer must lodge their Application Form and Application Monies with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation. Applicants under the Broker Firm Offer must not send their Application Forms to the Share Registry.

The Broker Firm Offer opens at 9.00am on Monday, 27 July 2015 and is expected to close at 5.00pm on Wednesday, 29 July 2015. The Company, SaleCo, the Joint Lead Managers and the Financial Adviser may elect to extend the Offer or any part of it, or accept late Applications either generally or in particular cases. Your Broker may impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Please contact your Broker for instructions.

6.3.3 Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with instructions from their Broker.

6.3.4 Application acceptances and Application Monies

An Application in the Broker Firm Offer is an offer by the Applicant to subscribe for Shares for all or any of the Application Amount specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus including any supplementary or replacement prospectus and the Application Form. To the maximum extent permitted by law, an Application by an Applicant under the Offer is irrevocable. Acceptance of an Application will give rise to a binding contract.

The Company and SaleCo reserve the right to decline any Application and all Applications in whole or in part, without giving any reason. Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Successful Applicants in the Broker Firm Offer will be allotted Shares at the Offer Price and will receive the number of Shares in respect of which their Application is accepted by the Company and SaleCo.

6.3.5 Allocation policy under the Broker Firm Offer

The allocation of firm stock to Brokers will be determined by the Joint Lead Managers, in consultation with the Financial Adviser, the Company and SaleCo. Shares which are allocated to Brokers for allocation to their Australian resident retail clients will be issued or transferred to the Applicants who have received a valid allocation of Shares from those Brokers. It will be a matter for the Brokers to determine how they allocate Shares among their eligible retail clients, and they (and not the Company, SaleCo, the Financial Adviser or the Joint Lead Managers) will be responsible for ensuring that eligible retail clients who have received an allocation from them receive the relevant Shares.

6.3.6 Announcement of final allocation policy in the Broker Firm Offer

Applicants under the Broker Firm Offer will be able to confirm their firm allocation through the Broker from whom they received their allocation.

However, if you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the Pepper Offer Information Line on 1300 385 439 (inside Australia) or +61 3 9413 4383 (outside Australia), or confirmed your firm allocation through a Broker.

6.4 Institutional Offer

6.4.1 Invitations to bid

The Institutional Offer invites certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares. The Joint Lead Managers separately advised Institutional Investors of the Application procedures for the Institutional Offer. Shares issued to Institutional Investors as part of the Institutional Offer will be issued under this Prospectus.

6.4.2 Allocation policy under the Institutional Offer

The allocation of Shares under the Institutional Offer will be determined by the Joint Lead Managers in consultation with the Company, SaleCo and the Financial Adviser. The Joint Lead Managers, in consultation with the Company, SaleCo and the Financial Adviser, have absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer will be advised of their allocation of Shares, if any, by the Joint Lead Managers. The allocation policy was influenced by a range of factors, including the following:

- number of Shares bid for by particular Applicants;
- the likelihood that particular Applicants will be long term Shareholders;
- the Company's desire for an informed and active trading market following Listing;
- the size and type of funds under management of particular Applicants;
- the investment style of particular Applicants;
- the timeliness of the bid by particular Applicants;
- the Company's desire to establish a broad spread of institutional Shareholders;
- anticipated level of demand under the Broker Firm Offer, Personnel Offer and Priority Offer; and
- any other factors that the Company, SaleCo and the Joint Lead Managers and the Financial Adviser considered appropriate.

6.5 Employee Gift Offer

6.5.1 Who can apply?

All Eligible Employees are entitled to participate in the Employee Gift Offer.

A separate offer letter, together with access to this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Gift Offer. Eligible Employees should read the separate offer letter and this Prospectus carefully and in their entirety before deciding to apply under the Employee Gift Offer. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

6.5.2 How to apply?

A separate offer letter, together with this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Gift Offer.

6.5.3 Payment methods

No payment is required for the Employee Gift Offer.

6.5.4 Allocation policy under the Employee Gift Offer

Applicants will receive a guaranteed allocation of up to $1,000 worth of Shares (rounded down to the nearest whole Share based on the Offer Price).

Unless the Board determines otherwise, the maximum number of Shares offered to part-time employees will be proportionate to the number of days they were working as at 31 December 2014.

6.6 Personnel Offer and Priority Offer

6.6.1 Personnel Offer

Eligible Employees are eligible to participate in the Personnel Offer.

Eligible Employees may apply for Shares online and must comply with the instructions on the website, www.peppershareoffer.com.au.

Applications under the Personnel Offer must be for a minimum of $2,000 worth of Shares.

Eligible Employees will receive a guaranteed minimum allocation of $2,000 worth of Shares at the Offer Price. The Company and SaleCo have absolute discretion regarding the allocation of Shares to Applicants in the Personnel Offer and may reject an Application, or allocate fewer Shares than the amount applied for, in their absolute discretion.

Payment may be made via BPAY or otherwise as agreed between the Company and the Joint Lead Managers. Application Monies must be received by the Share Registry by 5.00pm on Wednesday, 29 July 2015.

To make a payment via BPAY, you will need to apply online at www.peppershareoffer.com.au and must comply with the instructions on the website. It is your responsibility to ensure that your BPAY payment is received by the Share Registry by no later than 5.00pm on Wednesday, 29 July 2015. You should be aware that your financial institution may implement earlier cut-off times with regards to electronic payment, and you should therefore take this into consideration when making payment.

6.6.2 Priority Offer

The Priority Offer is open to selected Australian resident and overseas retail investors as agreed between the Company and the Joint Lead Managers. If you are a Priority Offer Applicant, you will receive a personalised invitation to apply for Shares in the Priority Offer.

Applicants under the Priority Offer may only apply for Shares online at www.peppershareoffer.com.au using the online Application Form and paying Application Monies via BPAY (no physical Application Form is needed when paying in this manner) or otherwise as agreed between the Company and the Joint Lead Managers. There are instructions set out on the online Application Form to help you complete it.

Applications under the Priority Offer must be for a minimum of $2,000 worth of Shares.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applicants under the Priority Offer must pay their Application Monies by BPAY in accordance with instructions on their personalised online Application Form or otherwise as agreed between the Company and the Joint Lead Managers. For more details, prospective Applicants should refer to www.peppershareoffer.com.au or contact the Pepper Offer Information Line on 1300 385 439 (within Australia) or +61 3 9415 4383 (outside Australia).

When completing your BPAY payment, please make sure to use the specific biller code and unique Customer Reference Number (CRN) generated by the online Application Form. Application Monies paid via BPAY must be received by the Share Registry by no later than 5.00pm AEST on Wednesday, 29 July 2015 and it is your responsibility to ensure that this occurs. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment. None of the Company, SaleCo or the Joint Lead Managers take any responsibility for any failure to receive Application Monies or payment by BPAY before the Priority Offer closes arising as a result of, among other things, delays in processing of payments by financial institutions.

The Company and SaleCo reserve the right to decline any Application in whole or in part, without giving any reason. Applicants under the Priority Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies provided by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down and any excess refunded (without interest).

If the amount of your Application Monies that you pay via BPAY is less than the amount specified on your online Application Form, you may be taken to have applied for such lower Australian dollar amount of Shares for which your cleared Application Monies will pay (and to have specified that amount on your online Application Form) or your Application may be rejected.

An Application in the Priority Offer is an offer by an Applicant to the Company and SaleCo to apply for Shares in the amount specified on the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including the conditions regarding quotation on ASX in Section 6.12, as well as any terms and conditions set out in any supplementary or replacement prospectus) and on the Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted by the Company, SaleCo and the Joint Lead Managers in respect of the full number of Shares specified on the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

The Company, in consultation with the Joint Lead Managers, has absolute discretion regarding the level of scaleback and the allocation of Shares under the Priority Offer. There is no assurance that any Applicant will be allocated any Shares, or the number of Shares for which the Applicant has applied.

6.7 Underwriting arrangements

The Offer (with the exception of the Employee Gift Offer) is fully underwritten. The Company, SaleCo and the Joint Lead Managers have entered into an Underwriting Agreement under which the Joint Lead Managers have been appointed as lead managers, bookrunners and underwriters of the Offer. The Joint Lead Managers agree, subject to certain conditions and termination events, to severally underwrite Applications for all Shares under the Offer in equal proportions. The Underwriting Agreement is subject to a number of conditions precedent and sets out a number of circumstances under which the Joint Lead Managers may terminate the agreement and the underwriting obligations. A summary of certain terms of the agreement and underwriting arrangements, including the termination provisions, is provided in Section 8.5.1.

6.8 Voluntary escrow arrangements

Upon Completion of the Offer, all Existing Shareholders will be subject to voluntary escrow arrangements (other than any Shares acquired by them, or entities related to them, under the Offer at the Offer Price). The Escrowed Shareholders have entered into voluntary escrow arrangements which prevent them from disposing of their Escrowed Shares during the relevant escrow period (subject to limited exceptions).

See Section 8.6 for a summary of the terms of the escrow arrangements and the limited exceptions that permit dealing in the Escrowed Shares during the relevant escrow period.

6.9 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed by you in the United States or to any US person (as defined in Regulation S under the US Securities Act), and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to any US person (as defined in Regulation S under the US Securities Act). The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold, directly or indirectly, in the United States or to any US person (as defined in Regulation S under the US Securities Act). The shares will be offered and sold only to non-US persons outside the United States in offshore transactions as defined in and in reliance on Regulations S under the US Securities Act.

Each Applicant in the Broker Firm Offer, and each Institutional Investor to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities law of any state of the United States and may not be offered or sold, directly or indirectly, in the United States or to any US person (as defined in Regulation S under the US Securities Act);

- it is not in the United States and it is not a US person (as defined in Regulation S under the US Securities Act);
- it has not and will not send the Prospectus or any other material relating to the Offer to any person in the United States or to any US person (as defined in Regulation S under the US Securities Act); and
- it will not offer or sell the Shares in the United States or to any US person (as defined in Regulation S under the US Securities Act).

Any offer, sale or resale of the Shares in the United States by a dealer (whether or not participating in the Offer) may violate the registration requirements of the US Securities Act if made prior to 40 days after the date on which the Offer Price is determined and the Shares are allocated under the Offer or if such Shares were purchased by a dealer under the Offer.

The Shares have not been and will not be registered under the *Financial Investment Business and Capital Act* in South Korea. Accordingly, the Shares may not be offered, sold or delivered, directly or indirectly, in South Korea or to, or for the account or benefit of, any resident of South Korea (as such term is defined under the Foreign Exchange Transaction Law of Korea and its Enforcement Decree), except as otherwise permitted under applicable South Korean laws and regulations.

Please refer to Section 8.12 for further details in relation to applicable selling restrictions.

6.10 Discretion regarding the Offer

The Company and SaleCo may withdraw the Offer at any time before the issue or transfer of Shares to Successful Applicants under the Broker Firm Offer, Personnel Offer and Priority Offer and Institutional Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

The Company, SaleCo, the Joint Lead Managers and the Financial Adviser also reserve the right to extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant fewer Shares than the amount applied or bid for.

6.11 ASX and ASIC

6.11.1 ASX waiver and confirmation

The Company has applied to ASX for the following ASX Listing Rule waiver and confirmation:

- a waiver from ASX Listing Rule 10.14 in connection with the proposed employee incentive schemes to be put in place by the Company, as described in Section 5.3.4; and
- confirmation that the Company may undertake conditional and deferred settlement basis trading of the Shares, subject to certain conditions to be approved by ASX.

Details of any securities issued under the LTI Scheme will be published in each annual report of the Company relating to the period in which securities have been issued. The annual report will also note that a waiver from the requirement to seek shareholder approval for the issue of securities under ASX Listing Rule 10.14 was granted from ASX.

Any additional directors who become entitled to participate in the LTI Scheme after the ASX waiver has been granted and who were not named in this Prospectus will not participate in the LTI Scheme until approval is obtained if required under ASX Listing Rule 10.14.

6.11.2 ASIC exemptions, modifications and relief

The Company has applied for certain exemptions from, modifications to, and relief from, the following provisions of the Corporations Act:

- an exemption from the requirements of section 734(2) of the Corporations Act to enable Pepper to communicate limited information about the Offer to its employees prior to lodgement of the Prospectus;
- relief so that the takeover provisions of the Corporations Act will not apply to certain relevant interests that the Company would otherwise acquire in the Escrowed Shareholders' Escrowed Shares by reason of the voluntary escrow arrangements in relation to those Shares, as described in Section 8.6; and
- an exemption from compliance with section 1020B(2) of the Corporations Act relating to the prohibition of certain short sales of securities on behalf of all persons who sell or offer to sell Shares during the period of conditional trading on ASX.

6.12 ASX listing, registers and holding statements and conditional and deferred settlement basis trading

6.12.1 Application to ASX for listing of the Company and quotation of Shares

The Company has applied for admission to the Official List and quotation of the Shares on ASX. The Company's ASX code is expected to be "PEP".

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

If permission is not granted for the official quotation of the Shares on ASX within three months after the date of this Prospectus (or any later date permitted by law), all Application Monies received by the Company and SaleCo will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

The Company will be required to comply with ASX Listing Rules, subject to any waivers obtained by the Company from time to time.

6.12.2 CHESS and issuer sponsored holdings

The Company has applied to participate in ASX's Clearing House Electronic Subregister System (**CHESS**) and will comply with ASX Listing Rules and ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, being an electronic CHESS subregister or an issuer sponsored subregister.

For all Successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (**HIN**) for CHESS holders or, where applicable, the Securityholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

6.12.3 Conditional and deferred settlement basis trading and selling Shares on market

It is expected that trading of the Shares on ASX (on a conditional and deferred settlement basis) will commence on or about Friday, 31 July 2015.

The contracts formed on acceptance of Applications will be conditional on Settlement and the issue and transfer of Shares occurring. Trades occurring on ASX before Settlement and the issue and transfer of Shares occurring will be conditional on Settlement and the issue and transfer of Shares occurring.

Conditional trading will continue until the Company has advised ASX that Settlement, and the issue and transfer of Shares has occurred, which is expected to be on or about Wednesday, 5 August 2015. Trading will then be on an unconditional but deferred settlement basis until the Company has advised ASX that the despatch of holding statements for all Shares issued and transferred to Successful Applicants under the Offer has been completed, which is expected to be on or about Thursday, 6 August 2015. Normal settlement basis trading is expected to commence on or about Friday, 7 August 2015.

If Settlement has not occurred within 14 days (or such longer period as ASX allows) after the day Shares are first quoted on ASX, the Offer and all contracts arising on acceptance of the Offer will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect.

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If you sell Shares before receiving a holding statement, you do so at your own risk. The Company, SaleCo, the Directors, the SaleCo Directors, the Joint Lead Managers, the Share Registry, the Financial Adviser and the Shareholders disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the Pepper Offer Information Line or confirmed your firm allocation through a Broker.

6.13 Summary of rights and liabilities attaching to Shares and other material provisions of the Constitution

6.13.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law. A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the Official List.

6.13.2 Rights attaching to Shares

The rights attaching to the Shares are set out in the Constitution and are, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law. The principal rights, liabilities and obligations of the Shareholders are summarised below.

Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (unless a Shareholder has appointed more than one proxy) and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

Dividends

The Board may pay any interim and final dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

Issue of further Shares

The Board may (subject to the Constitution, the ASX Listing Rules and the Corporations Act) issue, allot or grant options for, or otherwise dispose of, Shares in the company on such terms as the Board decides.

Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. Under that section, with the:

- consent in writing of the holders of at least 75% of the issued Shares in the particular class; or
- sanction of a special resolution passed at a separate meeting of the holders of Shares in that class,

the rights attached to a class of Shares may be varied or cancelled.

Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Shareholder's Shares, Shares may be transferred in accordance with the ASX Settlement Operating Rules, any other ASX requirements and the Corporations Act or via a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may refuse to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

General meeting and notices

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. The Company must give at least 28 days' written notice of a general meeting.

Winding up

Subject to the Constitution, the Corporations Act and any preferential rights attaching to any class or classes of Shares, Shareholders will be entitled on a winding up to a share in any surplus assets of the Company in proportion to the Shares held by them. If the Company is wound up, the liquidator may with the sanction of a special resolution divide the whole or part of the Company's property among Shareholders and decide how the division is to be carried out as between Shareholders or different classes of Shareholders.

Unmarketable parcels

In accordance with the ASX Listing Rules, the Board may sell Shares that constitute less than a marketable parcel by following the procedures set out in the Constitution.

Proportional takeover provisions

The Constitution requires Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless they are renewed by Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

Directors – appointment and removal

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of eight, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at general meetings of the Company.

No Director (excluding one of the Co-Group Chief Executive Officers) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint a Director in addition to the existing Directors or to fill a casual vacancy on the Board, and that Director (apart from one of the Co-Group Chief Executive Officers) will then hold office until the conclusion of the next annual general meeting of the Company.

Directors – voting

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present at the meeting and entitled to vote on the matter. If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote, unless there are only two Directors present or entitled to vote (in which case the chairperson of the meeting does not have a second or casting vote and the proposed resolution is taken as lost).

Directors – remuneration

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for his or her services as a Director. However, the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. The remuneration of a Director (who is not an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue.

Directors may be paid for travel and other expenses incurred in attending to the Company's affairs, including attending and returning from meetings of Directors or Committees or general meetings. Any Director who devotes special attention to the business of the Company or who performs services which, in the opinion of the Board, are outside the scope of the ordinary duties of a Director may be remunerated for the services (as determined by the Board) out of the funds of the Company.

Powers and duties of Directors

The business and affairs of the Company are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within the Company's power and the powers that are not required by law or by the Constitution to be exercised by the Company in general meeting.

Preference shares

The Company may issue preference Shares, including preference Shares which are, or at the option of the Company or holder are, liable to be redeemed or convertible to ordinary shares. The rights attaching to preference Shares are those set out in the Constitution unless other rights have been approved by special resolution of the Company.

The Company has A Class Shares and B Class Shares on Issue which will convert to Shares prior to Completion.

Officer's indemnity

The Company, to the maximum extent permitted by law, indemnifies each Director and executive officer of the Company on a full indemnity basis against all losses, liability, costs, charges and expenses incurred by that person as an officer of the Company or one of its related bodies corporate.

The Company, to the maximum extent permitted by law, may purchase and maintain insurance, or pay or agree to pay a premium for insurance for each Director and executive officer of the Company against any liability incurred by that person as an officer of the Company or its related bodies corporate, including a liability for negligence or for reasonable costs and expenses incurred in defending or responding to proceedings (whether civil or criminal and whatever their outcome).

The Company may enter into contracts with a Director or former Director agreeing to provide continuing access to Board papers, books, records and documents of the Company that relate to the period during which the Director or former Director was a Director. The Company may arrange that its related bodies corporate provide similar access to board papers, books, records or documents.

Amendment

The Constitution may be amended only by a special resolution passed by Shareholders.

6.14 Acknowledgements

Each Applicant under the Offer will be deemed to have:

- agreed to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement prospectus) including or accompanied by the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant(s), if a natural person, is/are over 18 years of age;
- acknowledged that, once the Company or a Broker receives an Application Form, it may not be withdrawn;
- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised the Company, SaleCo and the Joint Lead Managers and their respective officers or agents, to do anything on behalf of the Applicant(s) necessary for Shares to be allocated to the Applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- acknowledged that, in some circumstances, the Company may not pay dividends, or that any dividends paid may not be franked;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Shares are suitable for the Applicant(s), given the investment objectives, financial situation or particular needs (including financial and tax issues) of the Applicant(s);
- declared that the Applicant(s) is/are a resident of Australia or New Zealand (except as applicable to the Institutional Offer);
- acknowledged and agreed that the Offer may be withdrawn by the Company and SaleCo or may otherwise not proceed in the circumstances described in this Prospectus; and
- acknowledged and agreed that if Listing does not occur for any reason, the Offer will not proceed.

Each Applicant in the Broker Firm Offer, Personnel Offer and Priority Offer, and each person to whom the Institutional Offer has been made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the Securities Act or the securities laws in accordance with Securities Act registration requirements or of any state of the United States and may not be offered, sold or resold, pledged or transferred in the United States, except in accordance with Securities Act regulation requirements or in a transaction exempt from, or not subject to, registration under the Securities Act and any other applicable state securities laws;
- it is not in the United States;
- it has not sent and will not send the Prospectus or any other material relating to the Offer to any person in the United States;
- it is purchasing the Shares in an offshore transaction meeting the requirements of Regulation S; and
- it will not offer or sell the Shares in any other jurisdiction outside Australia except in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

07.

Investigating Accountant's Report

07. INVESTIGATING ACCOUNTANT'S REPORT

Deloitte Corporate Finance Pty Limited
ACN 003 833 127
AFSL 241457

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Directors
Pepper Group Limited
Level 9, 146 Arthur Street
North Sydney NSW 2060

The Directors
Pepper SaleCo Pty Limited
Level 9, 146 Arthur Street
North Sydney NSW 2060

16 July 2015

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT AND FINANCIAL SERVICES GUIDE

Introduction

This report has been prepared at the request of the directors of Pepper Group Limited ACN 094 317 665 (the Company) and of Pepper SaleCo Pty Limited ACN 606 618 768 (SaleCo) (the Directors) for inclusion in the Prospectus to be issued by the Company and SaleCo (the Prospectus) in respect of the initial public offering of fully paid ordinary shares in the Company (the Offer) and listing of the Company on the Australian Securities Exchange.

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services Licence under the Corporations Act 2001 (Cth) for the issue of this report.

In this report, references to the Company mean, prior to settlement of the Offer, Pepper Australia Pty Ltd ACN 094 317 665 and its subsidiaries; and after settlement of the Offer, Pepper Group Limited and its subsidiaries, or, where the context requires, the business described in the Prospectus. References to SaleCo and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus.

Scope

Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company and SaleCo to review the historical financial information being the:

- Statutory historical consolidated income statements for the years ended 31 December 2012, 31 December 2013 and 31 December 2014; and
- Statutory historical consolidated statement of financial position as at 31 December 2014;

as set out in Table 31 and Table 36 of the Prospectus (together the Statutory Historical Financial Information).

The Statutory Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies. The Statutory Historical Financial Information has been extracted from the financial reports of the Company for the years ended 31 December 2012, 31 December 2013 and 31 December 2014, which were

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audited by Deloitte Touche Tohmatsu in accordance with the Australian Auditing Standards. Deloitte Touche Tohmatsu issued an unmodified audit opinion on the financial report. The Statutory Historical Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Pro forma Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company and SaleCo to review the pro forma historical financial information of the Company being the:

- Pro forma historical income statements of the Company for the financial years ended 31 December 2012, 31 December 2013 and 31 December 2014;
- Pro forma historical statement of financial position of the Company as at 31 December 2014; and
- Pro forma historical cash flows before corporate financing and tax of the Company for the financial years ended 31 December 2012, 31 December 2013 and 31 December 2014,

as set out in Tables 30, 36 and 39 respectively of the Prospectus (together the Pro forma Historical Financial Information).

The Pro forma Historical Financial Information has been derived from the Statutory Historical Financial Information, after adjusting for the effects of pro forma adjustments described in Tables 32, 36 and 40 of the Prospectus (the Pro forma Adjustments).

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Historical Financial Information and the events or transactions to which the Pro forma Adjustments relate, as if those events or transactions had occurred as at the date of the Statutory Historical Financial Information. Due to its nature, the Pro forma Historical Financial Information does not represent the Company's actual or prospective financial position, or financial performance or cash flows.

The Forecast

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company and SaleCo to review the forecast of the Company being the:

- Statutory forecast consolidated income statement and the Statutory forecast consolidated net cash flows of the Company for the year ending 31 December 2015 as set out in Table 31 and Table 39 of the Prospectus (the Statutory Forecast). The Directors' best-estimate assumptions underlying the Statutory Forecast are described in Section 3.9 of the Prospectus. The stated basis of preparation used in the preparation of the Statutory Forecast is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies; and
- Pro forma forecast income statement and the Pro forma forecast net cash flows of the Company for the year ending 31 December 2015 as set out in Table 30 and Table 39 of the Prospectus (the Pro forma Forecast). The Pro forma Forecast has been derived from the Statutory Forecast, after adjusting for the effects of the pro forma transactions and/or adjustments described in Table 32 and Table 41 of the Prospectus. An audit/review has not been conducted on the source from which the unadjusted financial information was prepared. The stated basis of preparation used in the preparation of the Pro forma Forecast is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Forecast, and the event(s) or transaction(s) to which the Pro forma Adjustments relate, as if those event(s) or transaction(s) had occurred prior to 1 January 2015. Due to its nature the Pro forma Forecast does not represent the Company's actual prospective financial performance and/or cash flows for the year ending 31 December 2015,

(together, the Forecast).

The Forecast has been prepared by management of the Company and adopted by the Directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the financial year ending 31 December 2015. There is a considerable degree of subjective judgment involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different

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from the Forecast since anticipated events or transactions frequently do not occur as expected and the variations may be material.

The Directors' best-estimate assumptions on which the Forecast is based relate to future events and/or transactions that management of the Company expect to occur and actions that management of the Company expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the assumptions on which the Forecast is based, however such evidence is generally future orientated and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best-estimate assumptions. We do not express any opinion on the achievability of the results. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Company, which are detailed in Section 4 of the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly prospective investors should have regard to the investment risks set out in Section 4 and the sensitivity analysis set out in Section 3.11 of the Prospectus.

The sensitivity analysis set out in Section 3.11 of the Prospectus demonstrates the impacts on the Forecast of changes in key assumptions. The Forecast is therefore only indicative of the financial performance which may be achievable. We express no opinion as to whether the Forecast will be achieved.

We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Directors' Responsibility

The Directors are responsible for:

- the preparation and presentation of the Statutory Historical Financial Information and the Pro forma Historical Financial Information, including the selection and determination of the Pro forma Adjustments made to the Statutory Historical Financial Information and included in the Pro forma Historical Financial Information;
- the preparation of the Forecast, including the best-estimate assumptions underlying the Forecast and the selection and determination of the Pro forma Adjustments made to the Statutory Forecast and included in the Pro forma Forecast; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Statutory Historical Financial Information, the Pro forma Historical Financial Information and the Forecast that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Statutory Historical Financial Information, the Pro forma Historical Financial Information, the Statutory Forecast and the Pro Forma Forecast based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagement (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly we will not express an audit opinion.

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Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

Statutory Historical Financial Information

- a review of the extraction of Statutory Historical Financial Information from the audited consolidated financial statements of the Company for the years ended 31 December 2012, 31 December 2013 and 31 December 2014;
- analytical procedures on the Statutory historical consolidated income statements of the Company for the years ended 31 December 2012, 31 December 2013 and 31 December 2014, and the Statutory historical consolidated statement of financial position of the Company as at 31 December 2014;
- a consistency check of the application of the stated basis of preparation, as described in the Prospectus, to the Statutory Historical Financial Information;
- a review of the Company's work papers, accounting records and other documents; and
- enquiry of the Directors, management and others in relation to the Statutory Historical Financial Information.

Pro forma Historical Financial Information

- consideration and review of work papers, accounting records and other documents of the Company and its auditors, including those dealing with the extraction of the Statutory Historical Financial Information of the Company from its audited consolidated financial statements for the years ended 31 December 2012, 31 December 2013 and 31 December 2014;
- consideration of the appropriateness of Pro forma Adjustments described in Table 32, Table 36 and Table 40 of the Prospectus;
- enquiry of the Directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro forma Historical Financial Information; and
- a review of the accounting policies adopted and used by the Company over the period for consistency of application.

The Forecast

- enquiries, including discussions with management and Directors of the factors considered in determining the assumptions;
- analytical and other review procedures we considered necessary including examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecast;
- review of the accounting policies adopted and used in the preparation of the Forecast; and
- consideration of the Pro forma Adjustments applied to the Statutory Forecast in preparing the Pro forma Forecast described in Table 32 and Table 41 of the Prospectus.

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Conclusions

Statutory Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information, as described in Section 3.2 of the Prospectus, and comprising the:

- Statutory historical consolidated income statements of the Company for the years ended 31 December 2012, 31 December 2013 and 31 December 2014; and
- Statutory historical consolidated statement of financial position of the Company as at 31 December 2014;

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 3.3 of the Prospectus.

Pro forma Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro forma Historical Financial Information is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Section 3.3 of the Prospectus.

Statutory Forecast

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best-estimate assumptions used in the preparation of the Statutory Forecast do not provide reasonable grounds for the Statutory Forecast;

(ii) in all material respects, the Statutory Forecast:

a. is not prepared on the basis of the Directors' best-estimate assumptions as described in Section 3.9 of the Prospectus; and

b. is not presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in Australian Accounting Standards; or

(iii) the Statutory Forecast itself is unreasonable.

Pro forma Forecast

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best-estimate assumptions used in the preparation of the Pro forma Forecast do not provide reasonable grounds for the Pro forma Forecast;

(ii) in all material respects, the Pro forma Forecast:

a. is not prepared on the basis of the Directors' best-estimate assumptions as described in Section 3.9 of the Prospectus; and

b. is not presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in Australian Accounting Standards, applied to the Statutory Forecast and the Pro forma Adjustments as if those adjustments had occurred prior to 1 January 2015; or

(iii) the Pro forma Forecast itself is unreasonable.

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Restrictions on Use

Without modifying our conclusions, we draw attention to the 'Important Notices' page and to Section 3.3 of the Prospectus, which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, the Investigating Accountant's Report may not be suitable for use for another purpose.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

Disclosure of Interest

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Offer other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the auditor of the Company.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Ian Turner
Authorised Representative of
Deloitte Corporate Finance Pty Limited (AFSL Number 241457)
AR Number 461016

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Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (DCF), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. Clients may request particulars of our remuneration within a reasonable time after being given this FSG.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu. We and other entities related to Deloitte Touche Tohmatsu:

- do not have any formal associations or relationships with any entities that are issuers of financial products
- may provide professional services to issuers of financial products in the ordinary course of business.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS’ contact details are also set out below.

The Complaints Officer	Financial Ombudsman Service
PO Box N250	GPO Box 3
Grosvenor Place	Melbourne VIC 3001
Sydney NSW 1220	info@fos.org.au
complaints@deloitte.com.au	www.fos.org.au
Fax: +61 2 9255 8434	Tel: 1300 780 808
	Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

July 2014

Deloitte Corporate Finance Pty Limited, ABN 19 003 883 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

08.

Additional Information

08. ADDITIONAL INFORMATION

8.1 Registration

The Company was registered in New South Wales, Australia on 30 August 2000 as a private company and was converted to a public company limited by shares on 12 June 2015. As at the Prospectus Date, the Company has 126,243,000 Shares on issue (each fully paid) currently held by the Shareholders set out in Section 6.

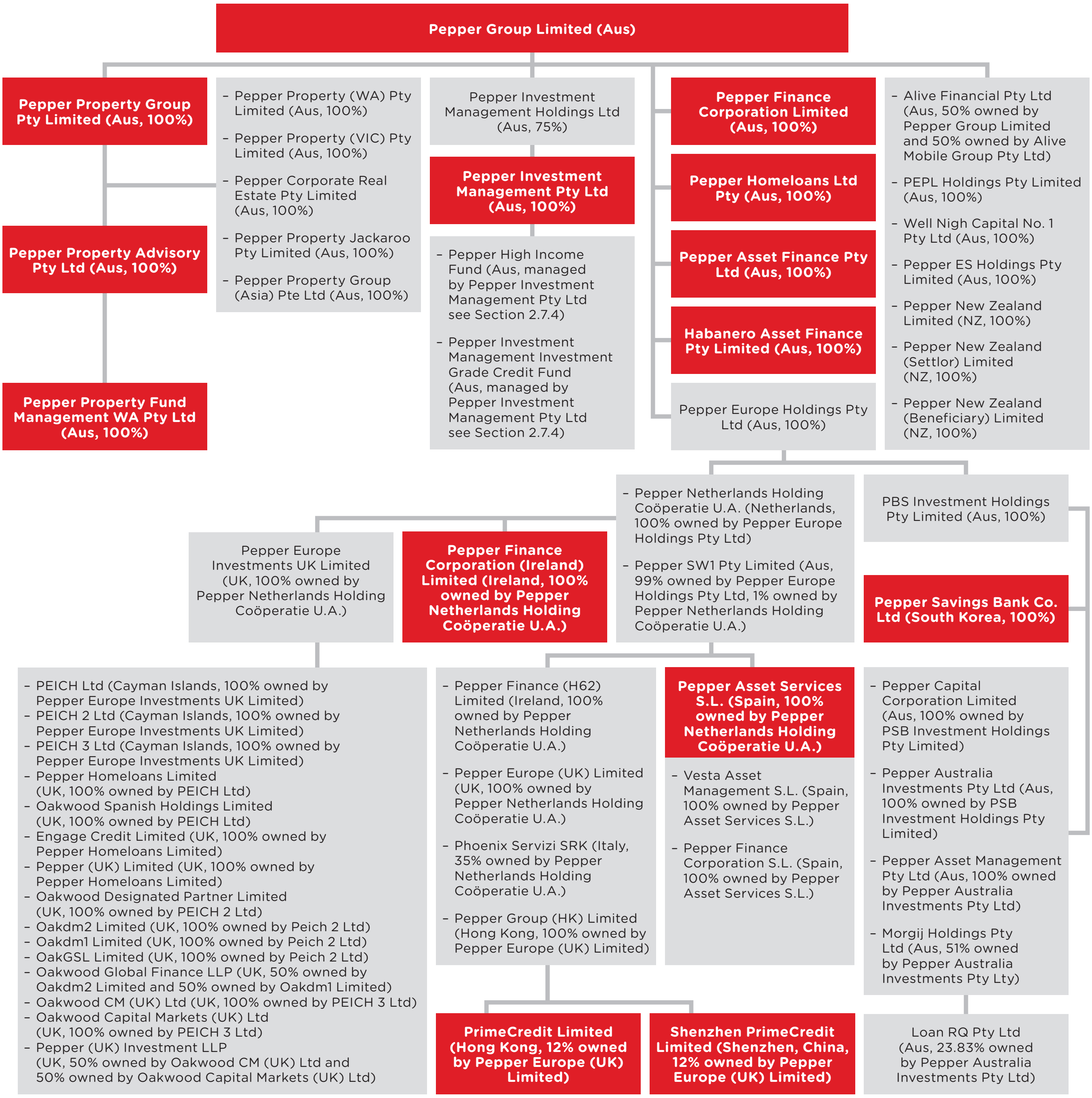
SaleCo was incorporated in Victoria, Australia on 23 June 2015 as a private company limited by shares. The sole Shareholder of SaleCo is Patrick Tuttle. The SaleCo Directors are Seumas Dawes, Des O'Shea, Melanie Willis, Matthew Burlage, Michael Culhane and Patrick Tuttle.

8.2 Company tax status and financial year

The Company will be taxed in Australia at the corporate tax rate. The Company's financial year ends on 31 December annually.

8.3 Corporate structure

Figure 67: Corporate structure of the Group



Note: *In relation to Pepper Investment Management Holdings Limited, see Section 8.5.4 for a description of the swap entitlement and early vesting options arrangements. In relation to PEPL Holdings Pty Ltd, this company will be acquired shortly before the Offer as part of the pre-Offer restructure.*

Note: *The Company holds a $1.25 million convertible note issued by Alive Mobile Group Pty Ltd which, if converted, would give the Company an interest in Alive Mobile Group Pty Ltd of between 15% and 40%*

Each of the Group entities listed above undertakes the business of Pepper as set out in this Prospectus. The Group's primary operating entities are shaded red.

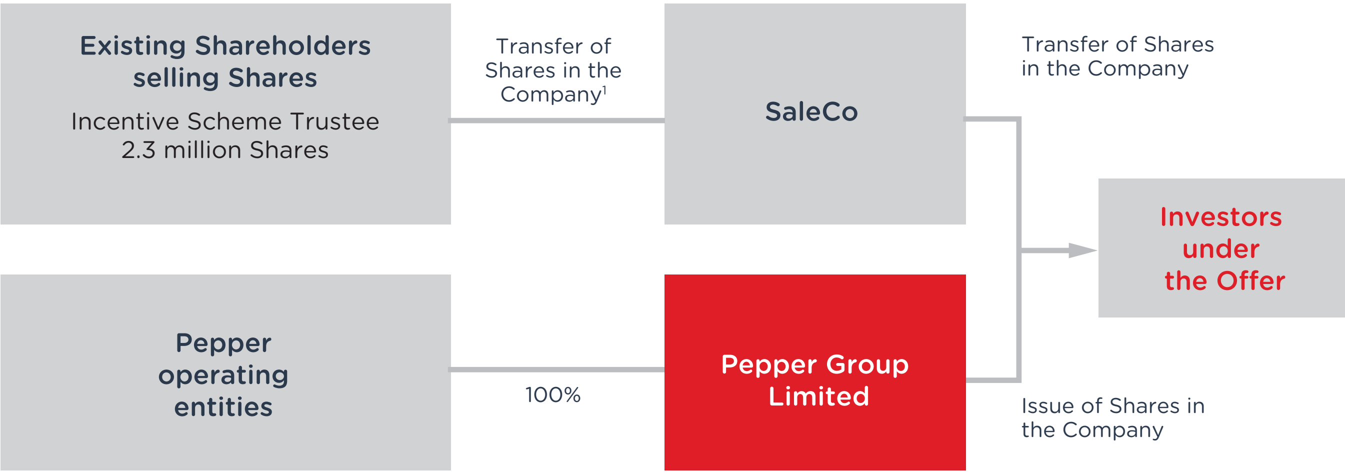
8.4 Role of SaleCo

SaleCo, a special purpose vehicle, has been established to facilitate the sale of some of the Existing Shares held by the Incentive Scheme Trustee. The Incentive Scheme Trustee has executed a deed in favour of, and for the benefit of, SaleCo under which it agrees to sell its Existing Shares to SaleCo free from encumbrances and third-party rights, other than Shares to be retained by it (including Shares to be retained by the Incentive Scheme Trustee which are subject to the voluntary escrow arrangement described in Section 8.6).

The Existing Shares that SaleCo acquires from the Incentive Scheme Trustee will be transferred to Successful Applicants under the Offer at the Offer Price. The price payable by SaleCo for these Shares is the Offer Price. The Company will separately issue New Shares to Successful Applicants under the Offer.

SaleCo has no material assets, liabilities or operations other than its interest in the deeds described above. The SaleCo Directors are the same as those on the Board of Directors. The Company has indemnified SaleCo for any loss that SaleCo may incur as a consequence of the Offer.

Figure 68: Offer structure



1. *Certain of the Existing Shareholders will not transfer Shares under the Offer. Shares retained by the Escrowed Shareholders will be subject to voluntary escrow arrangements as described in Section 8.6 (other than any Shares acquired by them, or entities related to them, under the Offer at the Offer Price).*

8.5 Material contracts

Along with the Underwriting Agreement, summarised below, the Directors consider that there are a number of contracts which are significant or material to the Group or of such a nature that an investor may wish to have details of them when making an assessment of whether to apply for Shares. Summaries for material contracts set out in this Prospectus (including the summary of the Underwriting Agreement set out below), do not purport to be complete and are qualified by the text of the contracts themselves.

8.5.1 Underwriting Agreement

The Offer is being underwritten by the Joint Lead Managers pursuant to an underwriting agreement dated 17 July 2015 and entered into between the Company, SaleCo and the Joint Lead Managers (Underwriting Agreement). Under the Underwriting Agreement, the Joint Lead Managers have agreed to arrange, manage and underwrite the Offer.

For the purpose of this section, "Offer Documents" means the documents issued or published by, or on behalf of, the Company and SaleCo and with their prior approval in respect of the Offer and the Employee Gift Offer, and in a form approved by the Joint Lead Managers including:

- the pathfinder version of this Prospectus and any document which supplements or replaces the pathfinder (including any addendum to the pathfinder);
- this Prospectus, any Application Form and any supplementary or replacement prospectus;
- any cover email, including an appropriate cautionary legend, sent to eligible Institutional Investors in Australia and New Zealand and other agreed foreign jurisdictions, the Co-Lead Manager and Co-Managers with a link to or attaching the pathfinder in connection with the Institutional Offer and bookbuild; and
- any investor presentation, roadshow presentation or marketing presentation and/or ASX announcement(s) used in connection with the Institutional Offer or the Broker Firm Offer (including any addendum to those presentations and any draft of such documents used for roadshow purposes prior to the lodgement date).

Commissions, fees and expenses

The Company has agreed to pay the Joint Lead Managers an underwriting fee equal to 2.0%, and a management fee equal to 0.5% of the funds raised under the Offer (excluding from the Employee Gift Offer). The underwriting and management fees will become payable by the Company on the date of Settlement of the Offer and will be paid to the Joint Lead Managers in equal proportions. In addition, an incentive fee of up to 0.75% of the Offer proceeds (excluding from the Employee Gift Offer) may also be payable to the Joint Lead Managers at the absolute discretion of the Company and SaleCo and may be split between the Joint Lead Managers in the absolute discretion of the Company and SaleCo, including by allocating the full incentive fee to either of the Joint Lead Managers.

In addition to the fees described above, the Company will reimburse the Joint Lead Managers for certain other agreed costs and expenses incurred by the Joint Lead Managers in relation to the Offer.

Termination events

A Joint Lead Manager may terminate the Underwriting Agreement at any time after the date of the Underwriting Agreement until 2.00pm on the date of Settlement of the Offer (without any cost or liability by notice to the Company, SaleCo and the other Joint Lead Manager), if any of the following events occur:

- in the relevant Joint Lead Manager's reasonable opinion, a statement in any of the Offer Documents or the information released to the public is or becomes misleading or deceptive or is likely to mislead or deceive, or a matter required to be included is omitted from an Offer Document;
- there occurs a new circumstance that arises after lodgement of this Prospectus that would have been required to be included in this Prospectus if it had arisen before lodgement;
- the Company and SaleCo issue or, in the reasonable opinion of the Joint Lead Managers, is required to issue, a supplementary or replacement prospectus to comply with section 719 of the Corporations Act;
- at any time the S&P/ASX 200 Index falls to a level that is 90% or less of the level as at the close of trading on the date of close of the Institutional bookbuild and is at or below that level at the close of trading:
  - for two consecutive business days during any time after the date of the Underwriting Agreement; or
  - on the business day immediately prior to, either, the Settlement date or the allotment date;

- any of the Escrow Deeds are withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with (other than with the prior written consent of the Joint Lead Managers);
- an Implementation Participation Deed Poll is withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;
- any financial forecast that appears in the Offer Documents is, or becomes (in the reasonable opinion of the Joint Lead Managers) incapable of being met within the relevant forecast period;
- the Company, SaleCo or any of their respective directors or officers (as those terms are defined in the Corporations Act) engage, or have engaged since the date of the Underwriting Agreement, in any fraudulent conduct or activity whether or not in connection with the Offer;
- approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:
  - the Company's admission to the Official List on or before the listing approval date; or
  - the quotation of all of the Company's ordinary shares, including the New Shares, on ASX or for the Company's ordinary Shares, including the New Shares and the Existing Shares, to be traded through CHESS on or before the date on which the Shares are to be first quoted on ASX;

  or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- any of the following notifications are made in respect of the Offer:
  - ASIC issues an order (including an interim order) under section 739 of the Corporations Act and any such order becomes public and is not withdrawn within one Business Day of when it is made, or if it is made within one Business Day of the Settlement Date, it has not been withdrawn by the Settlement Date or if applicable the allotment date;
  - ASIC holds a hearing under section 739(2) of the Corporations Act;
  - an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or an Offer Document or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Offer or an Offer Document and any such application, inquiry or hearing becomes public and is not withdrawn within one Business Day of when it is made, or if it is made within one Business Day of the Settlement Date, it has not been withdrawn by the Settlement Date or if applicable the allotment date;
  - any person (other than the Joint Lead Managers) who has previously consented to the inclusion of its name in any Offer Document withdraws that consent; or
  - any person (other than the Joint Lead Managers) gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
- the Company or SaleCo does not provide a closing certificate as and when required by the Underwriting Agreement;
- any of the obligations of the relevant parties under any of the contracts that are material to the business of the Group or any of the Material Contracts are not capable of being performed in accordance with their terms (in the reasonable opinion of the terminating Joint Lead Manager) or all or any part of any such contracts:
  - is amended or varied outside of the ordinary course of business without the consent of the Joint Lead Managers;
  - ceases to have effect, otherwise than in accordance with its terms; or
  - is or becomes void, voidable, illegal, invalid or unenforceable (other than by reason only of a party waiving any of its rights) or capable of being terminated, rescinded or avoided or of limited force and effect, or its performance is or becomes illegal;
- the Company or SaleCo withdraws an Offer Document or the Offer or indicates that it does not intend to proceed with the Offer or any part of the Offer;
- any member of the Group becomes insolvent, or there is an act or omission which is likely to result in a member of the Group becoming insolvent;
- an event specified in the timetable up to and including the Settlement date is delayed by more than 1 business day without the Joint Lead Managers' prior written consent;
- the Company is prevented from allotting and issuing (as applicable) New Shares, or SaleCo is prevented from transferring the Existing Shares, within the time required by the timetable for the Offer, the Offer Documents, the ASX Listing Rules, applicable laws, an order of a court of competent jurisdiction or a governmental authority;

- except as disclosed in the Prospectus, the Company:
  - alters the issued capital of the Company or another member of the Group; or
  - disposes or attempts to dispose of a substantial part of the business or property of the Company or another member of the Group,

  without the prior written consent of the Joint Lead Managers;
- a regulatory body withdraws, revokes or amends any regulatory approvals required for the Company or SaleCo to perform their obligations under the Underwriting Agreement or to carry out the transactions contemplated by the Offer Documents;
- there is an event or occurrence, including any statute, order, rule, regulation, directive or request (including one compliance with which is in accordance with the general practice of persons to whom the directive or request is addressed) of any governmental agency which makes it illegal for the Joint Lead Managers to satisfy an obligation under the Underwriting Agreement, or to market, promote or settle the Offer;
- a change in either of the co-group CEOs occurs, or there is a change in the board of directors of the Company or SaleCo;
- the Chairman, a co-group CEO, CFO or COO of the Company vacates his or her office; or
- any of the following occur:
  - a director or proposed director named in the pathfinder version of this Prospectus or this Prospectus of the Company or SaleCo is charged with an indictable offence;
  - any governmental agency commences any public action against the Company or SaleCo or any of their respective directors in their capacity as a director of the Company or SaleCo (as applicable), or announces that it intends to take action; or
  - any director or proposed director named in the pathfinder version of this Prospectus or this Prospectus of the Company or SaleCo is disqualified from managing a corporation under Part 2D.6 of the Corporations Act;
- the Company varies any term of its constitution (except as disclosed in this Prospectus or contemplated by the Implementation Deed) without the prior written consent of the Joint Lead Managers; or
- any of the following occurs:
  - the commencement of legal proceedings against the Company, SaleCo, any other Group Member or against any director of the Company, SaleCo or any other Group Member in that capacity; or
  - any regulatory body commences any enquiry or public action against a Group Member.

Termination events subject to materiality

A Joint Lead Manager may terminate the Underwriting Agreement at any time after the date of the Underwriting Agreement until 2.00pm on the date of Settlement of the Offer (without any cost or liability by notice to the Company, SaleCo and the other Joint Lead Manager), if any of the following events occur and the Joint Lead Manager has reasonable grounds to believe the event (i) has or is likely to have a materially adverse effect on the success, settlement or marketing of the Offer, or on the ability of the Joint Lead Manager to market, promote or settle the Offer, or on the likely price at which the Shares will trade on ASX or the willingness of investors to subscribe for Shares, or (ii) will, or is likely to, give rise to a liability of the Joint Lead Manager under, or give rise to, or result in, a contravention by the Joint Lead Manager or its affiliates or the Joint Lead Manager or its affiliates being involved in a contravention of, any applicable law:

- any of the obligations of the relevant parties under any of the contracts that are material to the business of the Group or any of the Material Contracts are not capable of being performed in accordance with their terms (in the reasonable opinion of the terminating Joint Lead Manager) or all or any part of any such contracts is breached or terminated;
- the due diligence report or verification material or any other information supplied by or on behalf of the Company or SaleCo to the Joint Lead Managers in relation to the Group or the Offer is (or is likely to), or becomes (or becomes likely to be), misleading or deceptive, including by way of omission;
- any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company and the Group (insofar as the position in relation to an entity in the Group affects the overall position of the Company), including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company or the Group from those respectively disclosed in any Offer Document or any public and other media statements made by, or on behalf of and with the knowledge and consent of the Company, SaleCo or any other member of the Group, in relation to the business or affairs of the Company, SaleCo, the Group or the Offer;

- there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia, New Zealand, the United States, the United Kingdom, Hong Kong, South Korea, the People's Republic of China or any Member State of the European Union or any state or territory of Australia a new law, or the Reserve Bank of Australia or New Zealand, or any Commonwealth or state authority, including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement);
- there is a contravention by the Company, SaleCo or any other member of the Group of the Corporations Act, the *Competition and Consumer Act 2010* (Cth), the *Australian Securities and Investments Commission Act 2001* (Cth) (or any regulations under those acts), any of the ASX Listing Rules or any other applicable law or regulation (including any applicable law or regulation in a jurisdiction other than Australia);
- any aspect of the Offer does not comply with the Corporations Act (and all regulations under that Act), its constitution, the Listing Rules or any other applicable law or regulation (including any applicable law or regulation in a jurisdiction other than Australia);
- a representation, warranty, undertaking or obligation contained in the Underwriting Agreement on the part of the Company or SaleCo (whether severally or jointly) is breached, becomes not true or correct or is not performed;
- the Company or Sale Co defaults on one or more of its obligations under the Underwriting Agreement;
- any information supplied (including any information supplied prior to the date of the Underwriting Agreement) by or on behalf of a member of the Group to the Joint Lead Managers in respect of the Offer or the Group is, or is found to be, misleading or deceptive, or likely to mislead or deceive (including by omission, and, for the avoidance of doubt, including in circumstances where material information in respect of the Offer or the Group, and in respect of each jurisdiction in which the Group operates, has not been supplied to the Joint Lead Managers);
- hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, the United Kingdom, Hong Kong, the People's Republic of China, Singapore, South Korea, Ireland or Spain or any Member State of the European Union, or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries;
- a statement in any closing certificate is false, misleading, inaccurate or untrue or incorrect; or
- any of the following occurs:
  - a general moratorium on commercial banking activities in Australia, New Zealand, the People's Republic of China, Singapore, South Korea, Hong Kong, the United Kingdom, Ireland, Spain, the United States or the European Union is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
  - any adverse effect on the financial markets in Australia, New Zealand, the People's Republic of China, Singapore, South Korea, Hong Kong, the United Kingdom, the United States, Ireland, Spain or the European Union, or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries; or
  - trading in all securities quoted or listed on ASX, the New Zealand Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the Singapore Exchange or the Hong Kong Stock Exchange is suspended or limited in a material respect for one day (or a substantial part of one day) on which that exchange is open for trading.

Representations, warranties, undertakings and other terms

The Underwriting Agreement contains certain standard representations, warranties and undertakings by the Company and SaleCo to the Joint Lead Managers (as well as common conditions precedent, including conducting due diligence, lodgement of this Prospectus, the entry into voluntary escrow deeds by the Escrowed Shareholders, and ASIC and ASX granting the waivers and modifications necessary to enable the Offer to proceed in accordance with the timetable).

The representations and warranties given by the Company and SaleCo include, but are not limited to, matters such as the conduct of the Company and SaleCo, power and authorisations, information provided by the Company and SaleCo, Financial Information, disclosure in this Prospectus and other public information, the conduct of the Offer and compliance with laws, compliance with ASX Listing Rules and other legally binding requirements, anti-money laundering and bribery. The Company and SaleCo also provide additional representations and warranties in connection with matters including, but not limited to, their assets, closing certificates, the Shares, encumbrances, future matters, material contracts, the business of the Group, litigation, non-disposal of Escrowed Shares, entitlements of third parties, tax, insurance, authorisations, eligibility for Listing and internal accounting controls.

The Company and SaleCo's undertakings include that each will not, during the period following the date of the Underwriting Agreement until 120 days after Shares have been issued under the Offer:

- issue, or agree to issue, or indicate in any way that it may or will issue, or agree to issue, any shares or other securities or certain other arrangements without the prior written consent of the Joint Lead Managers (which is not to be unreasonably withheld or delayed) subject to certain limited exceptions, including an issue of securities pursuant to an employee share plan as described in the Offer Documents; or
- alter the capital structure of the Company or amend the Company's constitution, except with the prior written consent of the Joint Lead Managers (which is not to be unreasonably withheld or delayed); or
- dispose (or permit a member of the Group to dispose) of any material part of its (or their) business or property, and not acquire (or permit any member of the Group to acquire) any business or property, except in the ordinary course or as disclosed in the Prospectus.

Indemnity

Subject to certain exclusions relating to, among other things, fraud, wilful misconduct or gross negligence of an indemnified party, the Company and SaleCo agree to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

8.5.2 Term Securitisation and Warehouse Facilities

As at 31 December 2014, Pepper had 22 Funding Vehicles established in Australia, two Funding Vehicles established in New Zealand and two Funding Vehicles established in Europe (United Kingdom and Spain), in respect of which financing amounts are outstanding, funding the origination (and refinancing) of residential mortgage loans and other financial assets in each of those jurisdictions.

Details of Pepper's current Warehouse Facilities in Australia, New Zealand and Europe are set out below:

Warehouse Facilities					
	Total commitment	Total outstanding	Available limit	Current maturity	Asset class
Pepper Mortgage Warehouse Trust 2009-2	A$490 million	A$285 million	A$205 million	November 2015	Non-conforming residential mortgage loans
Pepper Mortgage Warehouse Trust 2010-1	A$300 million	A$234 million	A$66 million	July 2015	Non-conforming residential mortgage loans
Pepper NZ Mortgage Warehouse Trust 2011-1	NZ$120 million	NZ$120 million	n.a.	July 2041	Residential mortgage loans
Pepper NZ Mortgage Warehouse Trust 2011-2	NZ$119 million	NZ$119 million	n.a.	July 2041	Residential mortgage loans
Pepper Commercial Loans Trust 2013-1	A$115 million	A$115 million	n.a.	July 2016	Commercial mortgage loans
Pepper Settlement Trust[46]	A$40 million	$0 million	A$40 million	May 2022	Residential mortgage loans
Pepper NAB Mortgage Warehouse Trust	A$322 million	A$322 million	n.a.	August 2015	Prime Insured Residential mortgage loans
Residential Non-conforming Funding Trust No. 1	A$88 million	A$88 million	n.a.	February 2016	Non-conforming residential mortgage loans

46. This Funding Facility is for the short term funding of the settlement of certain new loans pending their allocation or transfer to certain other Warehouse Facilities within a maximum of 31 days. Senior funding is provided by a PIM Fund whose obligations to fund are subject to the availability to it of funding under its funding arrangements. The senior funder is also entitled to require early repayment of amounts it has funded at any time on 10 business days' notice.

Warehouse Facilities					
	Total commitment	Total outstanding	Available limit	Current maturity	Asset class
Pepper Mortgage Warehouse Trust 2014-2	A$350 million	A$132 million	$218 million	June 2016	Prime insured residential mortgage loans
Pepper Mortgage Warehouse Trust 2014-3	A$212 million	A$212 million	n.a.	July 2015	Prime insured residential mortgage loans
Pepper Asset Finance Warehouse Trust 2014-1	A$176.7 million	A$95.6 million	A$81.1 million	January 2018	Commercial equipment and auto loans
Pepper Prime Mortgage Warehouse Trust 2013-3	A$400 million	A$367 million	A$33 million	November 2015	Uninsured prime residential mortgage loans
Cayenne[47] Funding Limited	£175 million	£0 million	£175 million	January 2017	United Kingdom residential mortgage loans
Pepper Spain Funding Warehouse	€40 million[48] (accordion feature to €201 million)	€12 million	€28 million	October 2017	Unsecured point-of-sale and personal loans

Details of Pepper's outstanding Term Securitisation issuance are set out below:

Term Securitisations under the Pepper Residential Securities Trust program					
	Total initial issuance	Total outstanding*	Available limit*	Current maturity	Asset class
Pepper Residential Securities Trust No. 9	A$300 million	A$123.7 million	n.a.	May 2054	Non-conforming residential mortgage loans
Pepper Residential Securities Trust No. 10	A$350 million	A$180 million	n.a.	May 2055	Non-conforming residential mortgage loans
Pepper Residential Securities Trust No. 11	A$350 million	A$212 million	n.a.	November 2055	Non-conforming residential mortgage loans
Pepper Residential Securities Trust No. 12	US$200 million + A$278 million	$446.5 million	n.a.	November 2055	Non-conforming residential mortgage loans
Pepper Residential Securities Trust No. 13	A$400 million	$364 million	n.a.	November 2056	Non-conforming and uninsured prime residential mortgage loans

47. In respect of Cayenne Funding Limited and Pepper Spain Funding Warehouse, both facility limits are cited exclusive of the equity funding element.
48. Pepper is currently negotiating to increase this limit.

Term Securitisations under the Pepper Prime Trust Program					
	Total initial issuance	Total outstanding*	Available limit*	Current maturity	Asset class
Pepper Prime 2012-1 Trust	US$200 million + A$305.5 million	A$240 million	n.a.	November 2043	Prime insured residential mortgage loans
Pepper Prime 2013-1 Trust	US$250 million + A$223 million	US$196.5 million A$153 million	n.a.	August 2044	Prime insured residential mortgage loans
Pepper Prime Private Placement 2014-1 Trust	A$297.2 million	A$227 million	n.a.	May 2045	Prime insured residential mortgage loans

Further Warehouse Facilities may be entered into, and further Term Securitisation issues may be undertaken from time to time under the material contracts referred to below in this section or other new, similar, arrangements.

8.5.2.1 Framework of Warehouse Facilities and Term Securitisation arrangements

The Australian and New Zealand Warehouse Facility and Term Securitisation arrangements are governed by a number of material contracts including:

- **Master trust or trust deeds:** These documents provide for the creation of special purpose trusts as Funding Vehicles which are established to enter into the applicable Warehouse Facility or Term Securitisation arrangements. The trustee of each Funding Vehicle is either a professional trustee company independent of Pepper or Pepper Finance Corporation Limited (ABN 51 094 317 647). With the exception of one, Pepper is the sole beneficiary of these Funding Vehicle trusts and these documents provide the terms of the beneficiary's entitlements and, in particular, its entitlement to residual income. Pepper's right, as beneficiary, to residual income provides a significant contribution to the net interest margin it derives from the loan assets funded through these arrangements;
- **Origination and sale documents:** These documents govern the terms and conditions under which Pepper originates or transfers loan assets into a Funding Vehicle (see Section 8.5.2.2 for more detail);
- **Management documents:** These documents govern the terms and conditions under which Pepper is appointed to manage and direct the respective Funding Vehicles in carrying on their day-to-day business. The manager receives fees in exchange for the provision of those services (see Section 8.5.2.3 for more detail);
- **Servicing documents:** These documents govern the terms and conditions under which Pepper is appointed to service the assets of the respective Funding Vehicles by interfacing with customers (as applicable) and collecting payments under asset receivables. The servicer receives fees in exchange for the provision of those services (see Section 8.5.2.4 for more detail); and
- **Term Securitisation and Warehouse Facility specific agreements:** These documents contain the terms, conditions and other arrangements specific to the relevant Term Securitisation or Warehouse Facility, including:
  - funding facility documents entered into with funders for Warehouse Facilities, liquidity and redraw facilities, back-up servicer agreements or note issuance and subscription documents entered into with dealers for the placement of notes in connection with asset-backed securities;
  - security trust deeds and security documents, which establish the security over the asset pool, and establish a security trust for the benefit of the Funding Vehicle's creditors; and
  - hedging arrangements.

The primary documentation governing the European Warehouse Facilities is as follows:

- **Revolving credit facilities:** These documents set out the credit terms on which the tranched funding for the Warehouse Facility is provided. Typically, funding is provided at a senior level by an international investment bank or major Australian bank, at a mezzanine level by third-party investors (if any) and at a junior or "equity" level by Pepper;
- **Origination and sale documents:** These documents govern the terms and conditions under which a Funding Vehicle acquires the assets for the Warehouse Facilities, and set out the requirements of the lenders in relation to the origination of eligible assets (see Section 8.5.2.2 for more detail);

- **Servicing and back-up servicing documents:** These documents govern the terms and conditions under which Pepper is appointed to service the assets held in the Warehouse Facilities by interfacing with customers (as applicable) and collecting payments under the loans. The servicer receives fees in exchange for the provision of those services (see Section 8.5.2.4 for more detail). Back-up servicers are also required to be appointed in respect of the facilities, to ensure continuity in the event that Pepper as servicer is terminated;
- **Security documents:** These constitute the security over the assets, and establish a security trust for the benefit of the lenders and other secured creditors; and

Further, for both Australian and European arrangements, Pepper is typically required to contribute and in some cases to continue to hold a percentage of “first loss” capital in the form of Junior Notes, and/or in some cases to provide a limited guarantee, which offers credit support to the senior and mezzanine funders by absorbing the losses of the collateral first. The level of such credit support depends on the requirements of funders and investors, which in turn is a function of the riskiness of the underlying assets and in the case of funders and investors regulated in certain jurisdictions (including the European Union) “skin in the game” regulations which prevent such investors investing in securitisation structures unless the originator has retained certain minimum risk positions in the structure (generally representing at least 5% of the asset pool).

8.5.2.2 Origination and sale documents

The Origination and Sale Documents establish the terms on which Pepper may originate and transfer assets into a particular Funding Vehicle.

Typically, Pepper will give representations and warranties in respect of the origination and sale of the relevant assets to the relevant Funding Vehicle, including as to whether the assets comply with the eligibility criteria applicable to the applicable Warehouse Facility or Term Securitisation and are enforceable and in compliance with law and Pepper’s policies.

In the event of a breach of these requirements, Pepper may be obliged to repurchase or collateralise against (including by way of lending money to, or subscribing for notes issued by, a Funding Vehicle) the relevant assets by payment of amounts in relation to the unpaid balance of the relevant assets to the Funding Vehicle.

Pepper also frequently indemnifies the Funding Vehicle in respect of losses arising from breaches of these requirements.

8.5.2.3 Management documents

The terms of the Management Documents set out Pepper’s obligations as manager of the relevant Funding Vehicles and circumstances or defaults following the occurrence of which (and any applicable grace period) Pepper may be required to cease acting as the manager of the Funding Vehicle. These include:

- if it becomes insolvent;
- if required by law;
- it ceases to carry on a financial services business or does not maintain its necessary authorisations;
- certain breaches of its obligations or representations under the applicable transaction documents occur; or
- if a default or certain other events relating to portfolio performance occur under the relevant Warehouse Facility or Term Securitisation.

If the manager is forced to retire in these circumstances, a replacement manager will be appointed to the Funding Vehicle and be entitled to the relevant fees.

In addition to Pepper’s replacement as manager following default, the occurrence of such events (and any applicable grace period) would typically have other consequences under the transaction documentation which may include, depending on the transaction, a “stop origination” or “stop funding” event, an amortisation event or event of default.

Pepper as manager of a Funding Vehicle also typically gives indemnities in respect of any losses arising from breaches of its obligations or negligence as manager and in respect of certain other matters including any information it has provided in connection with the relevant Warehouse Facility or Term Securitisation being incorrect or misleading and/or certain taxes, costs, losses or liabilities that may be incurred by funders, dealers or back-up service providers in connection with the relevant Warehouse Facility or Term Securitisation.

Management Documents of this nature are a feature of Australian and New Zealand Warehouse Facility and Term Securitisation arrangements. In Europe, corporate administration services for the Funding Vehicles are provided by independent service companies while the operation of the transaction is carried out by the servicer, with an independent cash manager if the lender requires one.

8.5.2.4 Servicing documents

The terms of the Servicing Documents set out Pepper's obligations as servicer of the asset pool for the relevant Warehouse Facility or Term Securitisation and circumstances or defaults following the occurrence of which (and any applicable grace period) Pepper may be required to cease acting as the servicer of the Funding Vehicle. These include:

- if it becomes insolvent;
- it becomes unlawful for it to perform its material obligations;
- it ceases to carry on business or to maintain a required authorisation;
- certain breaches of its obligations and representations under the applicable transaction documents; or
- if a default or certain other events relating to portfolio performance occur under the relevant Warehouse Facility or Term Securitisation.

In addition to Pepper's replacement as servicer following default, the occurrence of such events (and any applicable grace period) would typically have other consequences under the transaction documentation which may include, depending on the transaction, a "stop origination" or "stop funding" event, an amortisation event or event of default.

Third-party service providers have entered into arrangements with the Funding Vehicles to act as back-up servicer and step into the role in the event of the removal of Pepper as servicer. The back-up servicer or any replacement servicer upon appointment as servicer will be entitled to the relevant fees.

Pepper as servicer of the asset pool also typically gives indemnities in respect of any losses arising from its negligence or breaches of its obligations as servicer (which include the servicing of the asset pool in accordance with applicable law and Pepper's servicing policies) and in respect of certain other matters including certain costs, losses or liabilities that may be incurred by any back-up servicer.

8.5.2.5 Funding terms

The funding documents for the Warehouse Facilities and Term Securitisations contain the terms and conditions of the funding provided by the funders pursuant to those arrangements, including interest and repayment terms, the criteria that must be satisfied by assets in the asset pool and certain performance triggers (such as loss rates and net interest margins) which, if breached, may lead to an event of default or other consequences (such as the replacement of Pepper as manager or servicer and/or the enforcement of security over the asset pool and/or net interest being diverted to pay down third-party funders) under the relevant Warehouse Facility or Term Securitisation.

In addition, the funding documents for Warehouse Facilities contain a number of additional terms dealing with the availability of those facilities to fund new assets on an ongoing basis as discussed below.

8.5.2.5.1 Term and availability

The Group's Warehouse Facilities typically terminate 12 to 36 months following the date of the first drawdown of the facility. Pepper can direct the trustee to request the funders under the Warehouse Facilities to extend the termination date of the facility for a further period (typically twelve months or such other period as is agreed). This request must generally be made in writing at least three to six months before the then current facility termination date. The funders can typically agree to or decline the extension of the Warehouse Facilities at their absolute discretion.

8.5.2.5.2 Conditions precedent to further funding

The availability of funding under a Warehouse Facility to fund the origination or acquisition of new assets is subject to a number of conditions precedent. The material conditions precedent typically include the following, some of which may be outside the control of Pepper:

- compliance by Pepper with its obligations and representations under the applicable transaction documents;
- compliance of the assets to be funded with the eligibility criteria for the relevant Warehouse Facility;
- required credit support levels (e.g. in the form of Junior Notes or charge-off levels against mezzanine notes) being contributed and maintained; and
- the absence of certain events, including “stop origination” events (described further below), amortisation events, potential events of default or events of default under the relevant Warehouse Facility.

8.5.2.5.3 “Stop origination” or “stop funding” events

The revolving period during which further funding may be requested may terminate early upon the occurrence of certain prescribed “stop origination” or “stop funding” events (in addition to upon the occurrence of certain other events such as amortisation events and events of default). The “stop origination” events (howsoever defined) typically include triggers similar to the conditions precedent to funding set out above in addition to broader events which may relate to loss rates and other indicators of the performance of the current portfolio, and may also include other events outside the control of Pepper. The relevant events are tested periodically. These may include:

- the failure of the assets in the relevant asset pool to satisfy certain portfolio parameters when tested from time to time (examples of which might typically include limits in the portfolio around geographic concentration, aggregate levels of debt to a customer and its related parties or aggregate limits of debt to “self-employed” customers);
- where required credit support levels (e.g. in the form of Junior Notes or charge-off levels against mezzanine notes) are not maintained (which in the case of the Australian and New Zealand Warehouse Facilities can occur as a result of losses in the pool being “charged off” against the Funding Vehicle’s lower ranking capital);
- a failure to maintain a minimum net interest margin within the Funding Vehicle;
- where certain asset defaults, arrears or loss rate delinquency balance thresholds have been exceeded and not cured in applicable periods; and
- the non-compliance by Pepper with its obligations or its giving of representations in various capacities under the transaction documents.

In addition to stopping further funding under the applicable Warehouse Facility, the occurrence of these events may lead to Pepper being replaced as manager and/or servicer under the Warehouse Facility.

8.5.2.6 Third-party servicing

Pepper has been appointed to act in a third-party trust manager or servicer role in respect of a number of other originators’ securitisation vehicles in the Australian market. These include three manager roles, four Servicer roles and five delegated sub-manager or sub-servicer roles. Pepper receives fees in exchange for the provision of those services. The terms of the third-party servicing and trust management agreements set out circumstances under which Pepper may be required to cease acting in its capacity as manager or servicer. These include:

- certain breaches of its obligations and representations under the applicable agreements occur;
- if it becomes insolvent;
- it ceases to carry on business or to maintain a required authorisation; or
- it becomes unlawful for it to perform its material obligations.

In addition, Pepper provides third-party residential, consumer or commercial loan administration services to numerous counterparties in the United Kingdom, Spain and Ireland, some of which are securitisation special purpose vehicles. Each servicing agreement relates to a specific or defined pool of loans. In the United Kingdom, Pepper principally provides these services through Pepper (UK) Limited. In Ireland, Pepper principally provides these services through Pepper Finance Corporation (Ireland) Limited. In Spain, Pepper principally provides these services through Spanish companies, Pepper Asset Services, S.L.U. and Vesta Asset Management, S.L.U. In some instances, the obligations of the Pepper entity providing loan administration services are guaranteed by another Pepper entity. The tables below sets out the number of servicing contracts entered into by each Pepper entity providing loan administration services in the United Kingdom, Ireland and Spain, and whether the obligations of that Pepper entity are guaranteed by another Pepper entity.

Pepper, through Oakwood Global Finance LLP, has entered into one agreement under which it provides certain corporate support services to a third-party in the United Kingdom. This agreement has expired pursuant to its original terms, but the parties have continued to perform pursuant to the original terms while a formal extension is being negotiated.

Table 53: Third-party servicing contracts in the United Kingdom

Pepper entity (servicer)	Number of servicing contracts	Guarantee provided in respect of obligations of Pepper servicer
Pepper (UK) Limited	18[49]	Yes, by Oakwood Global Finance LLP in respect of five of these agreements

Table 54: Third-party servicing contracts in the Republic of Ireland

Pepper entity (servicer)	Number of servicing contracts	Guarantee provided in respect of obligations of Pepper servicer
Pepper Finance Corporation (Ireland) Limited	21	Yes, by Pepper Netherlands Holding Coöperatie U.A. in respect of one of these agreements and by the Company in respect of one of these agreements.

Table 55: Third-party servicing contracts in Spain

Pepper entity (servicer)	Number of servicing contracts	Guarantee provided in respect of obligations of Pepper servicer
Pepper Asset Services, S.L.U.		
Vesta Asset Management, S.L.U.	5	None

8.5.2.7 Platform acquisitions

Spain

Pepper Spain acquired Celeris Group's consumer loans and servicing business in 2013. The consumer loans were purchased by a third-party vehicle pursuant to a sale and purchase agreement and then subsequently assigned to a Funding Vehicle. The Funding Vehicle funded the purchase by an issuance of senior notes and two tranches of junior notes, which are governed by the terms and conditions set out in a trust deed and the certificates of the senior and junior notes. This funding has been provided on a static rather than a revolving basis. Pepper also acts as servicer in relation to the portfolio of loans purchased from Celeris. The terms and conditions of Pepper's appointment as servicer are documented in a servicing agreement. Under the servicing agreement, Pepper may be required to cease acting as the servicer upon the occurrence of certain servicer termination events.

Ireland

In 2012, a transaction was undertaken by the Pepper Group in Ireland that involved, among other things, the acquisition by Pepper Netherlands Holding Coöperatie U.A. of Pepper Ireland (then called GE Capital Woodchester Home Loans Limited) which was the owner of a mortgage portfolio (the **Windmill Transaction**). As part of the Windmill Transaction a private securitisation of the mortgage portfolio was implemented whereby beneficial ownership of the assets passed to Windmill Funding Limited. Legal title to the assets remained with Pepper Ireland. Following the securitisation, Pepper Ireland was retained as the portfolio manager of the assets the subject of the Windmill Transaction.

49. One of the servicing contracts has expired pursuant to its original terms, but the parties have continued to perform pursuant to the original terms while a formal extension is being negotiated.

8.5.3 Deed poll

On 16 July 2015, the Company and SaleCo entered into an implementation deed poll in connection with the transfer of Shares to SaleCo and certain other matters described below. The Existing Shareholders, employee incentive scheme participants and certain other persons have signed corresponding deed polls pursuant to which they irrevocably undertake to comply with the terms of the implementation deed poll.

In summary, the implementation deed poll provides for:

- the Incentive Scheme Trustee transferring so many of the Shares held by them in the Company to SaleCo prior to Completion, other than Shares to be retained by them (including Escrowed Shares);
- the execution of voluntary escrow deeds by Escrowed Shareholders;
- certain amendments to the existing shareholder arrangements of the Company and the Legacy Schemes including a change of trustee prior to the Offer;
- amendment to the terms of the shareholders deed relating to the Company such that the shareholders deed will terminate immediately before Settlement;
- certain restructure steps to give rise to the capital structure presented in this Prospectus;
- certain shareholder resolutions to be passed by the Existing Shareholders and certain former Shareholders to facilitate the above transactions and the Offer including approving the adoption of a new constitution by the Company prior to the Offer;
- certain acknowledgements, covenants and waivers by the Company, SaleCo, Existing Shareholders, employee incentive scheme participants and certain other persons to facilitate the above transactions; and
- a requirement to seek to unwind certain of the above steps in the event the Offer does not take place and any of the above steps are completed.

8.5.4 Pepper Investment Management shareholder arrangements

8.5.4.1 Background

The Company is a party to a shareholders agreement with Seacombe Investment Pty Ltd (**Seacombe**) relating to Pepper Investment Management (**Shareholders Agreement**).

Pepper Investment Management is the manager of a number of fixed income and credit focused investment funds tailored for the wholesale investor marketplace. All of the issued share capital in Seacombe is jointly held by Patrick Holt and Sarah Holt. Mr Holt is the executive director of Pepper Investment Management.

Seacombe currently holds 25% of the issued share capital of Pepper Investment Management and the Company currently holds the remaining 75% of the issued share capital. Additionally, Paolo Luzzani, a portfolio manager at Pepper Investment Management, has been granted an option (**Pepper Investment Management Option**) to be issued so many A Class Shares in Pepper Investment Management (**A Class Shares**) as equates to 2.5% of Pepper Investment Management's total issued share capital on a fully diluted basis, subject to vesting conditions being satisfied.

Unless an early vesting condition is triggered (as described below), the Pepper Investment Management Option is only exercisable by Paolo Luzzani between 1 April 2018 and 31 March 2020 if Pepper Investment Management has achieved earnings before interest, taxes, depreciation, and amortisation (**EBITDA**) of at least $1.5 million for CY2017 and Paolo Luzzani is employed by Pepper Investment Management on the date the option is exercised.

8.5.4.2 Swap Entitlement, early vesting of Pepper Investment Management Option and related matters

The Shareholders Agreement provides for a mechanism whereby if an EBITDA target for Pepper Investment Management is met or exceeded, shareholders in Pepper Investment Management (other than the Company) are entitled to an issue of new ordinary shares in the Company in exchange for transferring their shares in Pepper Investment Management to the Company (**Swap Entitlement**). If a Swap Entitlement arises, the vesting of the Pepper Investment Management Option is accelerated such that the option would automatically be exercised and Mr Luzzani will be issued with A Class Shares equating to 2.5% of Pepper Investment Management's total issued capital (which would proportionately dilute the percentage interest of the Company and Seacombe in Pepper Investment Management's total issued share capital).

If Pepper Investment Management's EBITDA for CY2015 equals or exceeds the target of $807,699, then Seacombe and Mr Luzzani would each be entitled to receive new ordinary shares in the Company equal to the value of their respective shares in Pepper Investment Management. The value of each share in Pepper Investment Management is determined by multiplying Pepper Investment Management's EBITDA for the calendar year (based on management accounts) by five and dividing this figure by the total number of shares in Pepper Investment Management on issue. The value of Shares for the purpose of determining how many Shares should be issued to Seacombe and Luzzani pursuant to the Swap Entitlement would be determined by multiplying the Company's EBITDA by five and then dividing that figure by the total number of shares on issue for the Company (adjusted for the diluted value resulting from the issue of shares), i.e. it would not be based on the Company's trading Share price at the time.

If the CY2015 EBITDA target is not met but the actual CY2015 EBITDA is less than 40% below the target (i.e. Pepper Investment Management's actual CY2015 EBITDA is less than $807,699 but equal to or higher than $484,619.40), then the Swap Entitlement will be extended to apply in respect of CY2016, which would apply the EBITDA target of $807,699 and Swap Entitlement in the same way for CY2016 as described for CY2015 above.

If Pepper Investment Management's CY015 EBITDA is more than 40% below the target (i.e. is less than $484,619.40) or, after receiving another opportunity in CY2016 as described above, the CY2016 EBITDA does not meet the target of $807,699, the board of Pepper Investment Management may, by unanimous resolution, determine that a new EBITDA target and new target date be set. However, the board is not under any obligation to set a new EBITDA target and target date. If the board does not set a new EBITDA target and target date, Seacombe would no longer be entitled to be issued any shares in the Company and the Company would be entitled to acquire all of Seacombe's shares in Pepper Investment Management for fair market value as at the target date (i.e. 31 December 2015 or 31 December 2016, as applicable). The price to be paid by the Company is the fair market value determined by an independent valuer, discounted by the difference in the percentage between the actual EBITDA and the target EBITDA for the relevant target year. While the shares held by Seacombe can be acquired by the Company, the Pepper Investment Management Option would remain in place and be capable of being vesting in the manner described above.

A failure to exercise the right to the Swap Entitlement within the required timeframe would result in it lapsing.

The EBITDA for Pepper Investment Management for the first five months of CY2015 to 31 May 2015 is approximately ($270,000) (i.e. a loss). This is approximately $1.08 million below the target EBITDA for CY2015 of $807,699 (however the actual EBITDA for the full CY2015 may vary significantly from the first five months of CY2015).

8.5.4.3 Other terms of the Shareholders Agreement

The Shareholders Agreement also regulates certain aspects of the conduct of Pepper Investment Management's business, including director appointment rights for shareholders to the Pepper Investment Management board as well as approval thresholds for various decisions. Additionally, if the Pepper Investment Management board has reached an irreconcilable deadlock, the Company has the option of purchasing all non-Company shareholder shares in Pepper Investment Management, at fair market value as determined by an independent valuer.

The Company and other shareholders of Pepper Investment Management have pre-emptive rights in respect of any transfer by the other of their shares in Pepper Investment Management. Seacombe has limited transfer rights in respect of its shares in Pepper Investment Management which require approval by the Pepper Investment Management board.

The Shareholders Agreement includes a number of events of default, including a material breach of the Shareholders Agreement or the executive services agreement between Pepper Investment Management and Patrick Holt, insolvency, a disposal of shares in Pepper Investment Management that is contrary to the Shareholders Agreement or Pepper Investment Management's constitution and a change in control of the Company (described below). If an event of default occurs, then the non-defaulting shareholder(s) will have the option to acquire the defaulting shareholder's shares in Pepper Investment Management at a price equal the fair market value of the relevant Pepper Investment Management shares as determined by an independent valuer, discounted by 20%.

A change in control of the Company occurs if:

- more than 40% of the Company's shares conferring voting or economic interests are acquired by a third-party;
- a third-party acquires the capacity to control the composition of the Board; or
- a third-party acquires the capacity to control the financial and operating policies or Management of the Company.

The Offer will not trigger any of the above change of control events.

8.5.5 Pepper Property Group Acquisition Documents

8.5.5.1 Background

The Company is party to a share sale agreement with Grant Samuel Holdings Pty Ltd (GSH) and Gregory B Smith Pty Ltd (as trustee) (**GBS**), among others (**GBS Sale Agreement**) and a share sale agreement with MFM Australia Pty Ltd (as trustee) (**MFM**), among others (**MFM Sale Agreement**) (together the **Pepper Property Group Acquisition Documents**).

8.5.5.2 Deferred purchase price payments

Subject to certain conditions being met, on each of the first, second and third anniversaries of completion under the GBS Sale Agreement, the Company must pay $250,000 to each of GSH, GBS and MFM. The first and second payments have been made and the third and final payment of $250,000 to each GSH, GBS and MFM is to be paid under the Pepper Property Group Acquisition Documents in or around July 2015, in aggregate totalling $750,000 (on the basis that the relevant conditions are met).

8.5.5.3 Bonus payments

Under the GBS Sale Agreement, the Company must procure that for the CY2015 and for approximately the first half of CY2016 the net profit before tax of Pepper Property Group Pty Ltd (and its subsidiaries) for that period is allocated to the general bonus pool according to the terms of the GBS Sale Agreement for payment to certain employees of Pepper Property Group Pty Ltd (and its subsidiaries). The potential amount to be allocated to the general bonus pool in any calendar year can be in excess of $2,340,000. The distribution to the general bonus pool must be made as soon as reasonably practicable after the end of the relevant calendar year, and no later than 30 April of the year immediately following the end of the relevant calendar year.

8.5.5.4 Earn out payments

Subject to Pepper Property Group Pty Ltd (and its subsidiaries) achieving a minimum annual internal IRR of 15% over the previous calendar year, the Company must pay each of GBS and MFM an earn out payment equal to 16.5% of the aggregate NPAT of the Pepper Property Group Pty Ltd (and its subsidiaries) in respect of each of CY2015 and CY2016. Under the Pepper Property Group Acquisition Documents, an entitlement only exists for an earn out payment in connection with CY2016 in relation to the period until 3 July 2016. The earn out payment must be made by the Company in relation to a calendar year, by 30 April of the year immediately following the end of the relevant calendar year.

8.5.5.5 Issue of B Class Shares

Under the Pepper Property Group Acquisition Documents, the Company issued B Class Shares to each of GBS and MFM, which as part of a restructure prior to Completion will convert to Shares.

8.6 Escrow arrangements

Escrowed Shares held at Completion by the Escrowed Shareholders (other than any Shares acquired by them under the Offer) will be subject to voluntary escrow arrangements and will be subject to the exceptions and release dates outlined below.

The voluntary escrow arrangements prevent the Escrowed Shareholders from disposing of their Escrowed Shares for the applicable escrow period. The restriction on “disposing” is broadly defined and includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the Escrowed Shares, encumbering or granting a security interest over the Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control (including economic ownership or control) of any of the Escrowed Shares or agreeing to do any of those things.

The Escrowed Shareholders who are Non-Executive Director Shareholders or Other Existing Shareholders will be permitted to deal in 50% of their total Escrowed Shares from 4.15pm on the business day after the Company’s audited full year results for the period ending 31 December 2015 are released to ASX (**First Release Date**). The remainder of the Escrowed Shares for these Escrowed Shareholders will be released at 4.15pm on the business day after the Company’s half year results for the period ending 30 June 2016 are released to ASX.

The Escrowed Shareholders who are Management Shareholders or the Incentive Scheme Trustee[50] will be permitted to deal in 50% of their total Escrowed Shares held at Completion of the Offer from 4.15pm on the business day after the Company’s half year results for the period ending 30 June 2016 are released to ASX (Management/Trustee Shareholder Early Release Date) (in addition to any release of 25% of their Escrowed Shares pursuant to condition 1 below, if applicable). All remaining Escrowed

50. Participants in the Legacy Schemes have also executed deeds prohibiting them from dealing in the beneficial interest relating to Escrowed Shares held by the trustee which are referable to them.

Shares for Management Shareholders and the Incentive Scheme Trustee will be released at 4.15pm on the business day after the Company's audited full year results for the period ending 31 December 2016 are released to ASX.

Escrowed Shareholders may be released early from the escrow obligations to the extent required in order to dispose of up to the percentage of their Escrowed Shares (in one or more transactions) listed below if the corresponding conditions have been satisfied:

	Securities to be released from escrow	Escrow release conditions
1.	25% of Escrowed Shares held at Completion of Offer (in addition to the 50% released on the Early Release Date or 50% either released or to be released on the Management/Trustee Shareholder Early Release Date)	• The Company's audited full year results for the period ending 31 December 2015 are released to ASX; and • The Company VWAP for any 20 consecutive trading days occurring after the release of those financial results exceeds the Offer Price by more than 30%[1]
2.	100% of Escrowed Shares held at Completion of Offer	• The Company's audited full year results for the period ending 31 December 2015 are released to ASX; and • The Company VWAP for any 20 consecutive trading days occurring after the release of those financial results exceeds the Offer Price by more than 60%[1]

1. *The Company VWAP on any trading day prior to the release of the applicable financial results is not relevant to determining whether that exception is available.*

The Incentive Scheme Trustee may be released early from the escrow obligations to the extent necessary to facilitate the operation of the forfeiture provisions of the Legacy Schemes (see Section 5.3.4).

Escrowed Shareholders who are participants in the Global Legacy Scheme may be released early from their escrow obligations relating to a portion of their global legacy shares to pay, or finance the payment, of tax liabilities in connection with their participation in the Global Legacy Scheme (see Section 5.3.4.3).

All of the Escrowed Shareholders may be released early from their escrow obligations to enable:

- the Escrowed Shareholder to accept an offer under a takeover bid in relation to its Escrowed Shares if at least half of the holders of the Shares which are the subject of the bid that are not held by the Escrowed Shareholders have accepted the takeover bid; or
- the Escrowed Shares held by the Escrowed Shareholder to be transferred or cancelled as part of a scheme of arrangement under Part 5.1 of the Corporations Act.

During the escrow period, the Escrowed Shareholders whose Escrowed Shares are subject to escrow may deal in any of their Shares to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction).

8.7 Description of the syndicate

The Joint Lead Managers to the Offer are Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited.

The Co-Lead Manager to the Offer is CBA Equities Limited. The Co-Managers to the Offer are JBWere Limited and Macquarie Equities Limited.

8.8 Insurance

Pepper has a range of insurance policies in place to manage the risks of its day-to-day business and certain other activities.

These policies include professional indemnity insurance, which is held by all member companies of Pepper, along with workers compensation insurance for all states and territories of operation.

There are additional, more specific policies in place to cover other relevant business risks, including property, corporate travel and public and products liability cover.

8.9 Legal proceedings

Pepper is from time to time, party to various disputes and legal proceedings incidental to the conduct of its business. As at the Prospectus Date, there are no legal proceedings to which Pepper is a party that it believes are likely to have a material adverse impact on its future financial results and Pepper is not aware of any such legal proceedings that are pending or threatened.

8.10 Taxation considerations

8.10.1 Australian taxation considerations

This summary is general in nature and is not intended to be an authoritative or complete statement of all potential tax implications for each investor.

The following tax comments are based on the tax law in Australia in force as at the date of this Prospectus. It also does not take into account the tax law of countries other than Australia. Australian tax laws are complex. During the ownership of the Shares by investors, the taxation laws of Australia or their interpretation may change. The precise implications of ownership or disposal will depend upon each investor's specific circumstances. Investors should seek their own professional advice on the taxation implications of holding or disposing of the Shares, and receiving distributions from the Shares taking into account their specific circumstances.

The following information is a general summary of the Australian income tax, Goods and Services Tax (**GST**), and stamp duty implications for both Australian and non-Australian tax residents who acquire Shares under this Prospectus and hold their Shares on capital account. The categories of investors considered in this summary are limited to taxpayers who are individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their Shares on capital account.

In particular, this summary does not consider:

- the consequences for insurance companies, banks or other investors who hold their Shares on revenue account or otherwise as trading stock, or who are subject to the Taxation of Financial Arrangements (**TOFA**) provisions contained in Division 230 of the *Income Tax Assessment Act 1997* (Cth). Investors who are subject to TOFA should obtain their own tax advice as to the implications under TOFA (if any);
- the consequences for investors who are exempt from Australian income tax;
- all possible investor scenarios or aspects of tax law that may be relevant to an investor's individual circumstances. To that end, we have recommended that investors seek their own tax advice applicable to their specific circumstances; or
- any foreign (i.e. non-Australian) taxes or any Australian taxes other than income tax, GST and stamp duty.

8.10.2 Dividends paid on Shares

Australian resident individuals and complying superannuation entities

Dividends paid by the Company on a Share will constitute assessable income of an Australian tax resident investor. Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in their assessable income (some superannuation funds may be exempt in relation to Shares held to support current pension liabilities) in the year the dividend is paid, together with any franking credit attached to that dividend. Such investors should be entitled to a tax offset equal to the franking credit attached to the dividend subject to being a "qualified person" (refer further comments below). The tax offset can be applied to reduce the tax payable on the investor's taxable income. Where the tax offset exceeds the tax payable on the investor's taxable income, such investors should be entitled to a tax refund.

To the extent that the dividend is unfranked, the investor will generally be taxed at their prevailing marginal rate on the dividend received, with no tax offset.

Corporate investors

Corporate investors are also required to include both the dividend and associated franking credit in their assessable income. They are then allowed a tax offset up to the amount of the franking credit on the dividend.

An Australian tax resident corporate investor should be entitled to a credit in its own franking account to the extent of the franking credit on the distribution received. This will allow the corporate investor to pass on the benefit of the franking credits to its own investor(s) on the payment of dividends.

Excess franking credits received cannot give rise to a refund for a company but can be converted into carry forward tax losses.

Trusts and partnerships

Investors who are trustees (other than trustees of complying superannuation entities) or partnerships should include the dividend received and the franking credit attached in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership.

Non-Australian resident investors

Fully franked dividends received by a non-Australian resident investor will not be subject to any Australian dividend withholding tax.

Unfranked or partly franked dividends paid to a non-Australian resident investor will generally be subject to Australian dividend withholding tax to the extent of the unfranked component of the dividend. The rate of the dividend withholding tax will depend on the country in which the relevant investor is resident. Such investor may be able to claim tax credits for the Australian withholding tax in the jurisdiction in which they are a tax resident, depending on the tax law in the relevant jurisdiction. Investors should seek their own professional tax advice to confirm this.

There are circumstances where a dividend derived by a non-Australian resident investor will not be subject to Australian dividend withholding tax. For example, where the dividend is derived by a foreign superannuation fund for non-Australian residents, and the dividend is exempt from income tax in the country in which the non-resident recipient resides, no Australian dividend withholding tax should apply to the dividend.

Shares held "at risk"

The benefit of franking credits can be denied where an investor is not a "qualified person", in which case the investor will not need to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a "qualified person", two tests must be satisfied, namely the holding period rule and the related payment rule.

Under the holding period rule, an investor is required to hold Shares "at risk" for more than 45 days continuously (which is measured as a period of at least 45 days commencing the day after the Shares were acquired and ending on the 45th day after the Shares become ex-dividend) in order to qualify for franking benefits, including franking credits. This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed $5,000.

Special rules apply to trusts and beneficiaries.

Under the related payment rule, a different testing period applies where the investor has made, or is under an obligation to make, a related payment in relation to the dividend. The related payment rule requires the investor to have held the Shares "at risk" for the continuous 45 day period as above and, more specifically, within the limited period commencing on the 45th day before, and ending on the 45th day after, the day the Shares become ex-dividend.

Investors should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.

The Commonwealth Government enacted a specific integrity measure to prevent "dividend washing" with effect from 1 July 2013. Dividend washing is a practice through which taxpayers seek to claim two sets of franking credits by selling shares held on the ASX after the taxpayer becomes entitled to the dividend but before the official record date for dividend entitlements (ex-dividend) and then effectively repurchasing the same parcel of shares on a special ASX trading market with the right to the dividend (cum-dividend). The dividend washing rules generally do not apply to individuals whose franking credit tax offset entitlement is $5,000 or less in a year of income.

Taxpayers engaging in dividend washing practice will not be entitled to the second franking credit tax offset on the distribution on the shares acquired (nor is the second franking credit amount be included in their assessable income). Investors should consider the impact of these changes having regard to their own personal circumstances.

8.10.3 Disposal of Shares

Australian tax resident investors

Most Australian tax resident investors will be subject to Australian Capital Gains Tax (CGT) on the disposal of the Shares. Some investors will hold Shares on revenue account, trading stock or under the TOFA regime. These investors should seek their own advice.

An investor will derive a capital gain on the disposal of a particular Share where the capital proceeds received on disposal exceeds the CGT cost base of the Share. The CGT cost base of the Share is broadly the amount paid to acquire the Share plus any transaction/incidental costs.

A CGT discount may be available on the capital gain for individual investors, trustee investors and investors that are complying superannuation entities, broadly where the particular Shares are held for at least 12 months prior to sale. Any current year or carry forward capital losses should offset the capital gain first before the CGT discount can be applied.

The CGT discount for individuals and trusts is 50% and for complying superannuation entities is 33 1/3%. In relation to trusts, the rules are complex, but this discount may be able to be flowed up to beneficiaries of the trust.

An investor will incur a capital loss on the disposal of the particular Shares to the extent that the capital proceeds on disposal are less than the CGT reduced cost base of the Shares.

If an investor derives a net capital gain in a year, this amount is, subject to the comments below, included in the investor's assessable income. If an investor incurs a net capital loss in a year, this amount is carried forward and is available to offset against capital gains derived in subsequent years, subject in some cases to the investor satisfying certain rules relating to the recoupment of carried forward losses.

Non-Australian resident investors

Non-Australian tax resident investors will not be liable for Australian tax on a capital gain upon the disposal of a Share, unless the Share is taxable Australian property. Similarly, if a capital loss arises on disposal of a Share, the investor will not be entitled to claim this capital loss in Australia unless the Share is taxable Australian property.

Generally, a Share will only be taxable Australian property if the Shareholder, together with its associates, owns at least 10% of the shares in the Company, and the market value of the Company's Australian real property assets is more than 50% of the market value of its total assets.

The Company has confirmed it currently has limited Australian real property assets. On this basis, the Share held by a non-Australian tax resident investor should not be taxable Australian property and its disposal should not be subject to CGT.

If an investor holds a Share in connection with the conduct of a business through a permanent establishment in Australia, the investor should seek separate tax advice.

8.10.4 Tax file number

An investor is not required to quote their tax file number (**TFN**) to the Company. However, if TFN or exemption details are not provided, Australian tax may be required to be deducted by the Company from dividends at the maximum marginal tax rate applicable at the time plus the Medicare levy (and Temporary Budget Repair Levy if applicable).

An investor that holds Shares as part of an enterprise may quote its Australian Business Number instead of its TFN.

8.10.5 Stamp duty

Investors should not be liable for stamp duty in respect of their acquisition of the Shares. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of the Shares provided that they are quoted on ASX at the time of the transfer and any agreement to transfer.

Investors should seek their own advice as to the impact of stamp duty in their own particular circumstances.

8.10.6 Australian GST

The acquisition, redemption or disposal of the Shares by an Australian tax resident (that is registered for GST) will be an input taxed financial supply, and therefore is not subject to GST.

No GST should be payable in respect of dividends on Shares paid to investors.

An Australian tax resident investor that is registered for GST may not be entitled to claim full input tax credits in respect of any GST paid on expenses they incur that relate to the acquisition, redemption or disposal of the Shares (e.g. lawyers' and accountants' fees).

Investors should seek their own advice on the impact of GST in their own particular circumstances.

8.11 Consents to be named and inclusion of statement and disclaimers of responsibility

Each of the parties referred to below (each a **Consenting Party**), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, had not been withdrawn by the following parties:

- Highbury Partnership has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Financial Adviser to the Offer in the form and context in which it is named;
- each of Goldman Sachs and Macquarie has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as a Joint Lead Manager to the Offer in the form and context in which it is named;
- Herbert Smith Freehills has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian legal adviser (other than in respect of taxation and stamp duty matters) to the Company and SaleCo in relation to the Offer in the form and context in which it is named;
- Deloitte Corporate Finance has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant to the Company and SaleCo in the form and context in which it is named and has given and not withdrawn its consent to the inclusion in this Prospectus of its Investigating Accountant Report and the statements specifically attributed to it in the text of, or by a footnote in, this Prospectus, in the form and context in which it is included (and all other references to the Investigating Accountant Report and those statements) in this Prospectus;
- Deloitte Touche Tohmatsu has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the auditor of the Company in the form and context in which it is named;
- PricewaterhouseCoopers has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the taxation adviser to the Company and SaleCo in the form and context in which it is named;
- Computershare Investor Services has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named. Computershare Investor Services has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to the Company;
- CBA Equities Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as a Co-Lead Manager to the Offer in the form and context in which it is named; and
- each of JBWere Limited and Macquarie Equities Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as a Co-Manager to the Offer in the form and context in which it is named.

No entity or person referred to in this section has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. Each of the persons and entities referred to in this this section has not authorised or caused the issue of this Prospectus and does not make any offer of Shares.

8.12 Selling restrictions

8.12.1 International offer restrictions

This document does not constitute an offer of new ordinary shares (**Shares**) of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

8.12.2 Canada (British Columbia, Ontario and Quebec provinces)

This document constitutes an offering of Shares only in the Provinces of British Columbia, Ontario and Quebec (the **Provinces**) and to those persons to whom they may be lawfully distributed in the Provinces, and only by persons permitted to sell such Shares. This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons that are "accredited investors" within the meaning of NI 45-106 – Prospectus and Registration Exemptions, of the Canadian Securities Administrators.

No securities commission or similar authority in the Provinces has reviewed or in any way passed upon this document, the merits of the Shares or the offering of Shares and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of Shares or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the Shares in the Provinces must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with exemptions from dealer registration and prospectus requirements. These resale restrictions may in some circumstances apply to resales of the Shares outside Canada and, as a result, Canadian purchasers should seek legal advice prior to any resale of the Shares.

The Company, and the directors and officers of the Company, may be located outside Canada, and as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the Company or its directors or officers. All or a substantial portion of the assets of the Company and such persons may be located outside Canada, and as a result, it may not be possible to satisfy a judgement against the Company or such persons in Canada or to enforce a judgement obtained in Canadian courts against the Company or such persons outside Canada.

Any Financial Information contained in this document has been prepared in accordance with AAS and also complies with International Financial Reporting Standards and interpretations issued by the IASB. Unless stated otherwise, all dollar amounts contained in this document are in Australian dollars.

Statutory rights of action for damages or rescission

Securities legislation in certain of the Provinces may provide purchasers with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, when an offering memorandum that is delivered to purchasers contains a misrepresentation. These rights and remedies must be exercised within prescribed time limits and are subject to the defences contained in applicable securities legislation. Prospective purchasers should refer to the applicable provisions of the securities legislation of their respective Province for the particulars of these rights or consult with a legal adviser.

The following is a summary of the statutory rights of rescission or to damages, or both, available to purchasers in Ontario. In Ontario, every purchaser of the Shares purchased pursuant to this document (other than (a) a "Canadian financial institution" or a "Schedule III bank" (each as defined in NI 45-106), (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in (a) or (b) above, if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary) shall have a statutory right of action for damages and/or rescission against the Company if this document or any amendment thereto contains a misrepresentation. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Company. This right of action for rescission or damages is in addition to and without derogation from any other right the purchaser may have at law. In particular, section 130.1 of the Securities Act (Ontario) provides that, if this document contains a misrepresentation, a purchaser who purchases the Shares during the period of distribution shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action for damages or, alternatively, may elect to exercise a right of rescission against the Company, provided that (a) the Company will not be liable if it proves that the purchaser purchased the Shares with knowledge of the misrepresentation, (b) in an action for damages, the Company is not liable for all or any portion of the damages that the Company proves does not represent the depreciation in value of the Shares as a result of the misrepresentation relied upon, and (c) in no case shall the amount recoverable exceed the price at which the Shares were offered.

Section 138 of the Securities Act (Ontario) provides that no action shall be commenced to enforce these rights more than (a) in the case of any action for rescission, 180 days after the date of the transaction that gave rise to the cause of action or (b) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the fact giving rise to the cause of action or (ii) three years after the date of the transaction that gave rise to the cause of action. These rights are in addition to and not in derogation from any other right the purchaser may have.

Certain Canadian income tax considerations

Prospective purchasers of the Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of the Shares as any discussion of taxation related matters in this document is not a comprehensive description and there are a number of substantive Canadian tax compliance requirements for investors in the Provinces.

Language of documents in Canada

Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

8.12.3 European Economic Area – Belgium, Germany, Luxembourg and Netherlands

The information in this document has been prepared on the basis that all offers of Shares will be made pursuant to an exemption under the Directive 2003/71/EC (**Prospectus Directive**), as amended and implemented in Member States of the European Economic Area (each a **Relevant Member State**), from the requirement to produce a prospectus for offers of securities.

An offer to the public of Shares has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

- to any legal entity that is authorised or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000, (ii) annual net turnover of at least €40,000,000, and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, **MiFID**); or
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID.

8.12.4 France

This document is not being distributed in the context of a public offering of financial securities (offre au public de titres financiers) in France within the meaning of Article L.411-1 of the *French Monetary and Financial Code* (Code monétaire et financier) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers (**AMF**). The Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This document and any other offering material relating to the Shares have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed (directly or indirectly) to the public in France. Such offers, sales and distributions have been and shall only be made in France to qualified investors (investisseurs qualifiés) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2, D.411-1, L.533-16, L.533-20, D.533-11, D.533-13, D.744-1, D.754-1 and D.764-1 of the *French Monetary and Financial Code* and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the *French Monetary and Financial Code*.

8.12.5 Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (**SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

8.12.6 Ireland

The information in this document does not constitute a prospectus under any Irish laws or regulations and this document has not been filed with or approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (**Prospectus Regulations**). The Shares have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to "qualified investors" as defined in Regulation 2(l) of the Prospectus Regulations.

8.12.7 Italy

The offering of the Shares in the Republic of Italy has not been authorised by the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa, **CONSOB**) pursuant to the Italian securities legislation and, accordingly, no offering material relating to the Shares may be distributed in Italy and the Shares may not be offered or sold in Italy in a public offer within the meaning of Article 1.1(t) of Legislative Decree No. 58 of 24 February 1998, as amended (**Decree No. 58**), other than:

- to qualified investors (**Qualified Investors**), as defined in Article 100 of Decree No. 58 by reference to Article 34-ter of CONSOB Regulation no. 11971 of 14 May 1999, as amended (**Regulation No. 1197l**); and
- in other circumstances that are exempt from the rules on public offer pursuant to Article 100 of Decree No. 58 and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Shares or distribution of any offer document relating to the Shares in Italy (excluding placements where a Qualified Investor solicits an offer from the issuer) under the paragraphs above must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (as amended), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 (as amended) and any other applicable laws; and
- in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

Any subsequent distribution of the Shares in Italy must be made in compliance with the public offer and prospectus requirement rules provided under Decree No. 58 and Regulation No. 11971, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such Shares being declared null and void and in the liability of the entity transferring the Shares for any damages suffered by the investors.

8.12.8 Japan

The Shares have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (**FIEL**) pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires Shares may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of Shares is conditional upon the execution of an agreement to that effect.

8.12.9 Malaysia

No approval from, or recognition by, the Securities Commission of Malaysia has been or will be obtained in relation to any offer of Shares. The Shares may not be offered or sold in Malaysia except pursuant to, and to persons prescribed under, Part I of Schedule 6 of the Malaysian Capital Markets and Services Act.

8.12.10 New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the *Financial Markets Conduct Act 2013* (**FMC Act**). The Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

8.12.11 Norway

This document has not been approved by, or registered with, any Norwegian securities regulator under the *Norwegian Securities Trading Act* of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

8.12.12 Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the *Securities and Futures Act*, Chapter 289 of Singapore (**SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

8.12.13 Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss *Code of Obligations* or the disclosure standards for listing prospectuses under the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Shares may be publicly distributed or otherwise made publicly available in Switzerland. The Shares will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations.

Neither this document nor any other offering or marketing material relating to the Shares has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This document is personal to the recipient only and not for general circulation in Switzerland.

8.12.14 United Arab Emirates

Neither this document nor the Shares have been approved, disapproved or passed on in any way by the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or any other governmental authority in the United Arab Emirates, nor has the Company received authorisation or licensing from the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or any other governmental authority in the United Arab Emirates to market or sell the Shares within the United Arab Emirates. No marketing of any financial products or services may be made from within the United Arab Emirates and no subscription to any financial products or services may be consummated within the United Arab Emirates. This document does not constitute and may not be used for the purpose of an offer or invitation. No services relating to the Shares, including the receipt of Applications and/or the allotment or redemption of Shares, may be rendered within the United Arab Emirates by the Company.

No offer or invitation to subscribe for Shares is valid in, or permitted from any person in, the Dubai International Financial Centre.

8.12.15 United Kingdom

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the *Financial Services and Markets Act 2000*, as amended (**FSMA**)) has been published or is intended to be published in respect of the Shares. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the *Financial Services and Markets Act 2000 (Financial Promotions) Order 2005* (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together, **relevant persons**). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

8.13 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the laws applicable in New South Wales and each Applicant and bidder under this Prospectus submits to the exclusive jurisdiction of the courts of New South Wales.

8.14 Incorporation by reference

The Company has lodged statutory accounts for the years ended 31 December 2012, 31 December 2013 and 31 December 2014 with ASIC, and the information in each set of accounts is incorporated by reference into this Prospectus. These can be obtained from www.peppergroup.com.au.

8.15 Statement of directors

The issue of this Prospectus has been authorised by each Director and each SaleCo Director. Each Director and each SaleCo Director has consented to lodgement of this Prospectus with ASIC and issue of this Prospectus and has not withdrawn that consent.

Appendix A.

Significant Accounting Policies

A. SIGNIFICANT ACCOUNTING POLICIES

A.1.1 Basis of preparation

A.1.1.1 Statement of compliance

The Financial Information in Section 3 of this Prospectus has been prepared in accordance with AAS adopted by the AASB and the Corporations Act. The Financial Information also complies with IFRS adopted by the IASB.

A.1.1.2 Basis of measurement

The Financial Information has been prepared on the historical cost basis except for the following material items in the balance sheet:

- derivative financial instruments are measured at fair value; and
- deferred acquisition consideration is measured at fair value.

A.1.1.3 Functional and presentation currency

The Financial Information is presented in Australian dollars, which is the Company's functional currency.

The Company is a company of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all Financial Information presented in Australian dollars has been rounded to the hundred thousand unless otherwise stated.

A.1.1.4 Use of estimates and judgement

Critical accounting estimates and assumptions

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. The resulting accounting estimates, which are based on management's best judgement at the date of the financial statements, will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below. Revenue recognition is excluded from this summary on the grounds that the policy adopted in this area is sufficiently objective.

Tax

The Company is subject to tax in numerous jurisdictions. Significant judgement is required in determining the related assets or provisions as there are transactions in the ordinary course of business and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact on the results for the year and the respective income tax and deferred tax assets or provisions in the year in which such determination is made. The Company recognises tax assets based on forecasts of future profits against which those assets may be utilised.

Goodwill

The Company tests goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill may be impaired. The recoverable amount of each cash-generating unit is generally determined on the basis of fair value less cost to sell calculations which require the use of cash flow projections based on approved financial budgets, looking forward up to three years. Cash flows are extrapolated using estimated growth rates beyond a three year period. The growth rates used do not exceed the long term average growth rate for the markets in which the segment operates. The discount rates used reflect the segment's pre-tax weighted average cost of capital.

Fair value of derivatives and other financial instruments

The fair value of derivatives is determined using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions, or uses observable market-based inputs, which are mainly based on market conditions at each balance sheet date.

Share incentive plans

The assumptions used in determining the amounts charged in the Company's income statement include judgements in respect of performance conditions and length of service together with future Share prices, dividend and interest yields and exercise patterns.

Critical judgements

Management has made judgements in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

A.1.2 Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the Statutory Historical Financial Information and the Statutory Forecast Financial Information presented in Section 3 of this Prospectus.

(a) Basis of consolidation

The consolidated Financial Information incorporates the financial statements of Pepper Australia Pty Ltd (the Company) and entities including structured entities controlled by the Company (together, the Group). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other voteholders;
- potential voting rights held by the Company, other voteholders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous Shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-Group assets and liabilities, equity, income, expenses, changes in ownership interests and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(b) Revenue recognition

Revenue arises in the course of ordinary activities of the Group and is measured at the fair value of the consideration received or receivable. It is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Loans are originated without the intent to securitise them immediately or in the near term. These loans are measured on an amortised cost basis in the balance sheet. This requires that, for all loan assets, revenue is recognised over the estimated actual (not contractual) life of the mortgage loan, taking into account all income and expenditure directly attributable to the loan, in the same way that all these factors would be taken into account in determining an investment return for a product. 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 income, mortgage risk fees received at loan settlement, loan premium income 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. Similarly, introductory interest rate discounts are spread over the expected life of the loan rather than the discount period.

Trust manager and servicer fee revenue arises in the course of ordinary activities of the Group and is measured at the fair value of the consideration received or receivable.

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

Interest income

Interest income is recognised as it accrues using an effective interest rate, taking into account the effective yield of the financial asset as calculated by discounting the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

Application fees

These fees cover the cost of assessing and processing mortgage loan applications. To the extent that these fees represent a recovery of cost or a charge for services, they are recognised within income when charged.

Mortgage risk fees

These fees cover the risk associated with the origination of specialist mortgage loans and are charged on settlement of a loan. Fees are brought to income over the estimated life of the loan on an effective yield basis as part of interest income.

Trust manager, promote fee and servicer fee income

Revenue is recognised as the services are provided and in line with amounts due and payable as set out in the relevant trust manager, promote fee deeds and servicer fee letters pertaining to each trust.

Advisory fee income

Advisory fee income is recognised and invoiced in the period in which it is earned.

(c) Taxation

The Company and its wholly owned Australian resident entities are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity from 1 July 2003. The head entity within the tax-consolidated group for the purpose of the tax consolidation system is Pepper Australia Pty Ltd.

Entities within the tax consolidated group have entered into a tax sharing agreement with the head entity. Under the terms of this agreement, Pepper Australia Pty Ltd and each of the entities in the tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the net accounting profit or loss of the entity and the current tax rate. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

Income tax expense represents the sum of the tax currently payable and deferred tax based on the applicable income tax rate for each jurisdiction.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period in each applicable jurisdiction.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The Company and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The head entity, Pepper Australia Pty Ltd, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Any difference between the amounts assumed and the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(d) Foreign currencies

The individual financial statements of each Group entity on which the Financial Information presented in the Prospectus is based are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Australian dollars ($), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), or exchange differences on transactions entered into in order to hedge certain foreign currency risks. These are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

(e) Financial assets and liabilities

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” investments, AFS financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than financial assets classified at FVTPL.

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 carried at amortised cost using the effective interest rate method. They arise when the Group provides money directly to a debtor with no intention of selling the contract.

Debt securities acquired which are categorised as loans and receivables 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.

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.

Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short term profit-taking; or
- it is a derivative that is not a designated and effective hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk. All derivative instruments are held at FVTPL, except for derivatives held for risk management purposes in an effective hedge relationship (see cash flow hedge accounting below). This includes terms included in a contract or other financial asset or liability (the host), which, had it been a standalone contract, would have had met the definition of a derivative. These are separated from the host and accounted for in the same way as a derivative.

AFS financial assets

The Group has investments in unlisted securities that are not traded in an active market but that are classified as AFS financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the AFS reserve, with the exception of impairment losses, interest calculated using the effective interest rate method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest rate method less any impairment.

Deferred transaction costs

Transaction costs representing set-up costs specific to the trusts are 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. On a consolidated basis, these costs are included as part of the amortised cost of the loans.

Transaction costs incurred by the Company, as manager of the mortgage program, in facilitating the trust structure program are capitalised on the balance sheet of the Company as part of investments. These costs are amortised to the income statement in line with the anticipated life of the trusts using the effective interest rate method. The average expected life of the trusts is estimated to be 24 to 60 months. On a consolidated basis, these costs are included as part of the amortised cost of the loans and receivables.

Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised 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 profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group 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 profit or loss. 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.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that any financial asset or group of financial assets has been impaired as a result of one or more events occurring since they were initially recognised (a loss event) and whether that loss event (or events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. The criteria used to assess objective evidence of credit risk include repossession of the mortgage or the existence of objective evidence of credit risk counterparty. If there is objective evidence that financial assets are impaired, an impairment charge is recognised for the difference between the carrying amount and the present value of estimated future recoverable cash flows, taking into account any guarantees.

Where there is no objective evidence that an impairment loss has been incurred on a financial instrument considered individually, be it significant or not, the Group includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment. The amount of impairment on a group of homogeneous assets is determined on the basis of historical loss data for assets with credit risk characteristics similar to those in the portfolio. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities.

If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease then the decrease in impairment loss is reversed through profit or loss. Impairment losses on AFS investment securities are recognised by reclassifying the losses accumulated in the AFS fair value reserve in equity to profit or loss.

(f) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) 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.

Cash in bank at the consolidated level includes the cash balances held in trusts that are controlled entities. The cash balance that is held in trusts can only be used in accordance with the provisions of their respective transaction documents.

(h) Intangible assets

Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

(i) Interest bearing liabilities

All 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 borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third-party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation recognised in accordance with AASB 118 *Revenue*.

(l) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(m) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2003 and vested after 1 January 2006. No amounts have been recognised in the financial statements in respect of other equity-settled shared-based payments.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(n) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except for:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(o) Business combinations under common control

Business combinations under common control are accounted for in the consolidated financial statements utilising the "predecessor values method" prospectively from the date that control is obtained. Assets and liabilities are recognised upon consolidation at their carrying amount in the consolidated financial statements of the ultimate parent entity, Pepper Australia Pty Ltd. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly in equity in the business combinations under common control reserve.

(p) Investments in associates (equity accounted investees)

Associates are entities in which Pepper has a stake that allows it to exert significant influence, but not control, over the financial and operating policies. Significant influence is generally presumed to exist where a Company holds in excess of 20% of the voting power of another entity. However, in certain circumstances such as the investment in PrimeCredit, the entity may be deemed to have significant influence due to its ability to control decision-making such as via board representation.

Investments in associates are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs incurred directly by Pepper.

The consolidated income statement includes Pepper's share of profit or loss from the date that significant influence or joint control commences until the date that the significant influence or joint control ceases.

(q) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(r) Indirect taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, or its equivalent in other countries, 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 within receivables or trade and other payables in the balance sheet.

(s) Debt and equity instruments

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument, if this is not the case, the instrument is generally an equity instrument and the proceeds included in equity, net of transaction costs.

(t) Hedge accounting

The Group held interest rate derivatives for risk management purposes in the asset finance business that meet the required documentation and hedge effectiveness criteria for cash flow hedge accounting.

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in other comprehensive income, and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately. When a hedging instrument expires, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the income statement.

Appendix B.

Glossary

B. GLOSSARY

AAS or Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board.
AASB	Australian Accounting Standards Board.
Acquisition Amortisation	non-cash amortisation of finite life intangible assets recognised following acquisitions undertaken by Pepper.
ADI	authorised deposit-taking institution.
Adjusted NPAT	net profit after tax adding back Acquisition Amortisation.
Alternative Documentation	Pepper lends to Low Documentation customers by considering alternative forms of documentation that provide evidence of income and capacity to repay loans. Pepper conducts analysis of borrowers' latest bank statements and business activity statements to satisfactorily establish borrowers' income and expenses.
Applicant	a person who submits an Application.
Application	an application to subscribe for Shares offered under this Prospectus.
Application Amount or Application Monies	the amount accompanying an Application Form submitted by an Applicant.
Application Form	the application form attached to or accompanying this Prospectus (including the electronic form provided by an online application facility).
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange that it operates, as the context requires.
ASX Listing Rules	the listing rules of ASX.
ASX Recommendations	the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.
ASX Settlement Operating Rules	the operating rules of ASX Settlement Pty Ltd (ABN 49 008 504 532) and, to the extent that they are applicable, the operating rules of each of ASX and ASX Clear Pty Ltd (ABN 48 001 314 503).
AUM	the Group's total assets under management calculated as explained in Section 3 and reflecting the sum of the Lending AUM and Servicing AUM. AUM excludes PrimeCredit which is not consolidated.
Australia and New Zealand Division	the businesses operated by the Group in Australia and New Zealand.
AVM	Automated Valuation Model, a report obtained from CoreLogic RP Data.
Board or Board of Directors	the board of directors of the Company.
Broker	any ASX participating organisation selected by the Joint Lead Managers or Financial Adviser to act as a broker to the Offer.
Broker Firm Offer	the offer of Shares under this Prospectus to Australian or New Zealand resident clients of Brokers who have received an invitation to participate from their Broker, as described in Section 6.3.
CAGR	compound annual growth rate.
calendar year or CY	year to 31 December.
capital expenditure	includes investment in property and equipment and intangible software and licensed assets.
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
Challenger Bank	banks that provide competition to larger traditional banks.
CHESS	Clearing House Electronic Subregister System operated in accordance with the Corporations Act.

Closing Date	the date on which the Offer is expected to close, being Wednesday, 29 July 2015 in respect of the Broker Firm Offer, the Personnel Offer and the Priority Offer. These dates may be varied without prior notice.
Co-Lead Manager	CBA Equities Limited.
Co-Managers	JBWere Limited and Macquarie Equities Limited.
Company	Pepper Group Limited (ACN 094 317 665).
Company VWAP	the average of the daily volume weighted average price of the Shares traded on ASX during the relevant period or on the relevant days, but excluding any "Crossing" transacted outside the "Open Session State" or any "Special Crossing" transacted at any time, each as defined in the ASX Settlement Operating Rules, or any overseas trades or trades pursuant to the exercise of options over any Shares.
Completion or Completion of the Offer	completion in respect of the issue and/or sale of Shares pursuant to the Offer.
Computershare Investor Services	Computershare Investor Services Pty Ltd (ABN 48 078 279 277).
Constitution	the constitution of the Company.
Corporate Debt Facilities	as defined in Section 3.
Corporations Act	*Corporations Act 2001* (Cth).
CPR	the conditional prepayment rate, the proportion of the principal of a pool of loans that is expected to be paid off prematurely in each payment period.
CRE	commercial real estate.
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited (ACN 003 833 127).
Director	a member of the Board.
DSR	direct sales representative.
Eligible Employees	• in respect of the Employee Gift Offer, employees of the Group that were employed by the Group on 31 December 2014 and who remain employed at Completion, and who are not participants in the LTI Scheme or the Legacy Schemes; or • in respect of the Personnel Offer, selected employees of the Group as nominated by the Company.
Employee Gift Offer	the offer made under this Prospectus under which Eligible Employees who have received an Offer from the Company may acquire, at no cost, the nearest number of whole Shares (rounded down) up to a value of $1,000 as described in Sections 5.3.4 and 6.5.
Equity Loans, Equity Notes, Junior Loans or Junior Notes	investment interests in Term Securitisations or Warehouse Facilities that have a lower priority than other funders in the event of default.
Escrow Deeds	the escrow deeds entered into between the Company and the Escrowed Shareholders as described in Section 8.6.
Escrowed Share	each of the Shares held by the Escrowed Shareholders at Completion of the Offer (other than any Shares purchased by them under the Offer or the Loan Shares in connection with the LTI Scheme or Shares issued in connection with the Employee Gift Offer held by the Incentive Scheme Trustee).
Escrowed Shareholder	each of the Management Shareholders, Non-Executive Director Shareholders, Incentive Scheme Trustee and Other Existing Shareholders who hold Shares at Completion of the Offer.
Existing Shareholders	those Shareholders who hold Existing Shares immediately prior to Completion (prior to the transfer of Shares to SaleCo), being Non-Executive Director Shareholders, Management Shareholders, the Legacy Trustee Shareholder and Other Existing Shareholders.
Existing Shares	Shares held by all Existing Shareholders immediately prior to Completion (prior to the transfer of Shares to SaleCo).

Exposure Period	the period specified in section 727(3) of the Corporations Act, being a minimum period of seven days after the Prospectus Date, during which an Application must not be accepted. ASIC may extend this period to no more than 14 days after the Prospectus Date.
Financial Adviser	Highbury Partnership.
Financial Conduct Authority	the Financial Conduct Authority, a United Kingdom-based financial markets regulator established by the *Financial Services Act 2012* (UK).
Financial Information	the financial information described as Financial Information in Section 3.
Forecast Financial Information	the forecast financial information described as Forecast Financial Information in Section 3.
Forecast Period	the calendar year ending 31 December 2015.
Funding Vehicle	a special purpose vehicle, typically a trust or an "orphan" special purpose vehicle, established to fund and hold financial assets as part of a Warehouse Facility or Term Securitisation or unregistered managed investment scheme.
FVTPL	fair value through profit or loss.
Goldman Sachs	Goldman Sachs Australia Pty Ltd (ACN 006 797 897).
GST	goods and services tax imposed in Australia.
Highbury Partnership	Highbury Partnership Pty Ltd (ABN 14 162 169 502/AFSL 434566).
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Incentive Scheme Trustee	Computershare Trustees (Ireland) Limited (a company registered in Ireland) and CPU Share Plans Pty Limited (ACN 081 600 875) as applicable.
independent Director	each of Des O'Shea, Melanie Willis and Matthew Burlage.
Institutional Investor	an investor who has been invited to participate in the Institutional Offer and is: • a person in Australia who is a wholesale client under section 761G of the Corporations Act and either a "professional investor" or "sophisticated investor" under sections 708(11) and 708(8) of the Corporations Act; or • an institutional investor in certain other jurisdictions, as agreed between the Company, SaleCo and the Joint Lead Managers to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any government agency (except one with which the Company is willing in its discretion to comply), and provided that in each case such investors are not in the United States.
Institutional Offer	the invitation to Institutional Investors under this Prospectus to acquire Shares as described in Section 6.4.
International Division	the businesses operated by Pepper United Kingdom, Pepper Ireland, Pepper Spain, Pepper South Korea and PrimeCredit.
Investigating Accountant	Deloitte Corporate Finance.
Investigating Accountant's Report	the report set out in Section 7.
Joint Lead Managers	Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited.
Legacy Schemes	as defined in Section 5.3.4.
Lending AUM	as defined in Section 3.
Listing	admission of the Company to the official list of ASX.
Loan Shares	as defined in Section 5.3.4.2.
Low Documentation	customers of Low Documentation loans are loan applicants that do not meet standard bank requirements for satisfactory evidence of income and historical documentation, such as self-employed and small business owners.
LTI Scheme	as defined in Section 5.3.4.2.

LVR	loan to value ratio.
Macquarie	Macquarie Capital (Australia) Limited (ACN 123 199 548).
Management	current management employees of the Company.
Management Shareholders	current Management of the Company and their closely related parties who hold Shares immediately prior to Completion (prior to the transfer of Shares to SaleCo).
New Shares	the new Shares to be issued by the Company under the Offer.
Non-Executive Director	a member of the Board of Directors who does not form part of Management.
Non-Executive Director Shareholders	current Non-Executive Directors who hold Shares immediately prior to Completion (prior to the transfer of Shares to SaleCo).
NPAT	net profit after tax.
Offer	the offer of Shares under this Prospectus.
Offer Document	as defined in Section 8.5.1.
Offer Period	Monday, 27 July 2015 to Wednesday, 29 July 2015.
Offer Price	$2.60 per Share.
Official List	the official list of entities that ASX has admitted to and not removed from listing.
Option	an option over a Share.
Other Existing Shareholders	Existing Shareholders who are not Management Shareholders, the Incentive Scheme Trustee or Non-Executive Director Shareholders.
Pepper or Group	the business described in this Prospectus, or when the context requires, the group of companies holding that business. This includes the Company but excludes SaleCo.
Pepper Asset Finance	Pepper Asset Finance Pty Ltd (ACN 165 183 317).
Pepper Direct	Pepper's direct distribution platform including www.Pepper.com.au and supported by a dedicated in-house call centre.
Pepper Investment Management or PIM	Pepper Investment Management Holdings Limited (ACN 150 050 785).
Pepper Ireland	Pepper Finance Corporation (Ireland) Limited (registered in Ireland, company number 34927) or, as the context requires, the Group companies operating in Ireland.
Pepper Offer Information Line	• inside Australia: 1300 385 439; or • outside Australia: +61 3 9415 4383, and in each case, open from 9.00am to 5.00pm Monday to Friday during the Offer Period.
Pepper Property Advisory	Pepper Property Advisory Pty Ltd (ACN 120 178 172).
Pepper Property Group	Pepper Property Group Pty Ltd (ACN 003 771 677).
Pepper Residential Securities	as described in Section 2.7.2.
Pepper South Korea	Pepper Savings Bank Co. Limited (registered in South Korea) or, as the context requires, the Group companies operating in South Korea.
Pepper Spain	Pepper Finance Corporation, S.L.U. or, as the context requires, the Group companies operating in Spain.
Pepper United Kingdom	Pepper (UK) Limited (registered in the United Kingdom, company number 06548489) or, as the context requires, the Group companies operating in the United Kingdom.
Personnel Offer	the offer of Shares to certain Eligible Employees as described in Section 6.6.1
PIM Funds	unregistered managed investment schemes, namely Pepper Investment Management High Income Fund (Pepper High Income Fund) and Pepper Investment Management Investment Grade Credit Fund (Pepper Investment Grade Fund) managed by Pepper Investment Management Pty Ltd (Manager), a wholly owned subsidiary of Pepper Investment Management Holdings (PIM).

PrimeCredit	PrimeCredit Limited (registered in Hong Kong, company number 56778) and Shenzhen PrimeCredit Limited (registered in Shenzhen Municipality, company number 440301501136032).
Priority Offer	the Offer of Shares to selected Australian resident and overseas retail investors as agreed between the Company and the Joint Lead Managers as described in Section 6.6.
Pro Forma	subject to the Pro Forma adjustments explained in Section 3.
Pro Forma Historical Financial Information	the financial information described as Pro Forma Historical Financial Information in Section 3.
Prospectus	this document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document.
Prospectus Date	the date on which a copy of this Prospectus was lodged with ASIC, being Friday, 17 July 2015.
ROE	return on equity.
SaleCo	Pepper SaleCo Pty Limited (ACN 606 618 768).
SaleCo Directors	the directors of SaleCo.
Servicing AUM	as defined in Section 3.
Settlement	settlement in respect of the Shares the subject of the Offer occurring under the Underwriting Agreement and associated settlement support arrangements.
Share	a fully paid ordinary share in the capital of the Company.
Share Registry	Computershare Investor Services.
Shareholder	a holder of Shares.
Shareholding	a holding of Shares.
SME	small and medium-sized enterprise.
Successful Applicant	an Applicant or Institutional Investor who is transferred Shares under the Offer.
Term Securitisation	an arrangement under which a pool of financial assets is sold to a Funding Vehicle which funds those financial assets in the capital markets through an issue of limited-recourse debt securities having a legal final maturity similar to the expected term of the financial assets in the pool.
TOFA	Taxation of Financial Arrangements provisions contained in Division 230 of the *Income Tax Assessment Act 1997* (Cth).
Underwriting Agreement	the underwriting agreement between the Company, SaleCo and the Joint Lead Managers in relation to the Offer, as described in Section 8.5.1.
Warehouse Facility	an arrangement under which financial assets are originated in the name of, or sold to, a Funding Vehicle which funds those financial assets through a relatively short term limited-recourse facility provided by funding banks and/or other investors with a view to selling the assets to another Funding Vehicle pursuant to a Term Securitisation or as part of a Whole Loan Sale.
White-Label	Pepper provides an unbranded product or service for the originator to sell and distribute the product or service under its own brand to sell to their customers.
Whole Loan Sale	an arrangement under which pools of financial assets are sold to an unrelated third-party purchaser which purchases those financial assets using its own resources and/or a funding structure unrelated to Pepper. Pepper may continue to act as servicer of the financial assets if agreed with the purchaser, and may make an investment in the pool in connection with that appointment.
working capital	third-party customer and Funding Vehicle receivables, trade payables and accruals, unearned income and provisions.

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CORPORATE DIRECTORY

Issuer's Registered Office

Pepper Group Limited
Level 9, 146 Arthur Street
North Sydney NSW 2060

Financial Adviser

Highbury Partnership Pty Ltd
Level 29, Chifley Tower, 2 Chifley Square
Sydney NSW 2000

Joint Lead Managers

Goldman Sachs Australia Pty Ltd
Level 46, Governor Phillip Tower, 1 Farrer Place
Sydney NSW 2000

Macquarie Capital (Australia) Limited
50 Martin Place
Sydney NSW 2000

Co-Lead Manager

CBA Equities Limited
Ground Floor, Tower 1, 201 Sussex Street
Sydney NSW 2000

Co-Managers

JBWere Limited
Level 16, 101 Collins Street
Melbourne VIC 3000

Macquarie Equities Limited
1 Shelley Street
Sydney NSW 2000

Australian Legal Adviser

Herbert Smith Freehills
ANZ Tower, 161 Castlereagh Street
Sydney NSW 2000

Investigating Accountant

Deloitte Corporate Finance Pty Limited
Grosvenor Place, 225 George Street
Sydney NSW 2000

Auditor

Deloitte Touche Tohmatsu
Grosvenor Place, 225 George Street
Sydney NSW 2000

Share Registry

Computershare Investor Services Pty Ltd
Level 4, 60 Carrington Street
Sydney NSW 2001

Pepper Offer Information Line

Inside Australia
1300 385 439

Outside Australia
+61 3 9415 4383

Offer Website

www.peppershareoffer.com.au

Corporate Website

www.pepper.com.au

pepper

www.peppergroup.com.au