Pepper Australia Pty Limited

ACN 094 317 665

Financial statements for the financial year ended 31 December 2012

Pepper Australia Pty Limited

Financial statements
for the financial year ended 31 December 2012

Directors' report

The directors of Pepper Australia Pty Limited submit herewith the financial statements for the financial year ended 31 December 2012. In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows:

The names of the directors of the company during or since the end of the financial year are:

Name	
Matthew Burlage	
Michael Culhane	
Seumas Dawes	
David Holmes	Alternate director to Patrick Tuttle
Jonathan Laredo	
Todd Lawler	
Steven Simpson	
Cameron Small	
Patrick Tuttle	

During the year, an aggregate 5,450 share options were granted to directors and senior executives of the company in Pepper Australia Pty Limited as part of their remuneration (Note 24(c)).

Principal activities

The consolidated entity's principal activities in the course of the financial year were the origination of residential mortgage loans and the provision of management and loan portfolio administration services to various mortgage, lease receivable and special purpose securitisation entities, including third party servicing activities.

There have been no significant changes in the activities of the consolidated entity during the financial year.

Review of operations

The consolidated entity had total comprehensive income for the year of $24,551,819 (2011: $14,239,029). The results of its operations are disclosed in the statement of comprehensive income.

Changes in state of affairs

On the 3rd July 2012, the Group completed the acquisition of Pepper Property Group (formerly Grant Samuel Property Pty Limited and its subsidiaries).

Other than the above, there was no significant change in the state of affairs of the consolidated entity.

Subsequent events

On 21 March, 2013, it was agreed by the respective boards of Pepper Australia Pty Limited and Pepper Europe Holdings Pty Ltd, a related but not consolidated group of companies, to initiate a corporate restructure such that Pepper Australia Pty Limited would acquire Pepper Europe Holdings Pty Limited and its subsidiaries.

Other than the above there has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Dividends

The company paid a fully franked dividend of $Nil (2011: $Nil) during the financial year.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company as named above, the company secretary, and all executive officers of the company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company against a liability incurred as such an officer or auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 3 of the financial statements.

This directors' report is signed in accordance with a resolution of the directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors

Patrick Tuttle
Director

Cameron Small
Director

Sydney, 24 April, 2013

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Tom Hambrett
Apr 29, 2015 01:12
Signed - PAPL Accounts 2012
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The Board of Directors
Pepper Australia Pty Limited
Level 9, 146 Arthur Street
NORTH SYDNEY NSW 2060

24 April 2013

Dear Board Members

Pepper Australia Pty Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Pepper Australia Pty Limited.

As lead audit partner for the audit of the financial statements of Pepper Australia Pty Limited for the financial year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Graham Mott
Partner
Chartered Accountants

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Tom Hambrett
Apr 29, 2015 01:12
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Independent Auditor's Report to the members of Pepper Australia Pty Limited

We have audited the accompanying financial report of Pepper Australia Pty Limited, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 6 to 43.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards– Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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Tom Hambrett
Apr 29, 2015 01:12
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Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pepper Australia Pty Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the financial report of Pepper Australia Pty Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2012 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001.*

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Graham Mott
Partner
Chartered Accountants
Sydney, 24 April 2013

Pepper Australia Pty Limited

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Patrick Tuttle
Director

Cameron Small
Director

Sydney, 24 April 2013

Pepper Australia Pty Limited

Statement of comprehensive income
for the financial year ended 31 December 2012

		Consolidated		Company	
	Note	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $
Revenue	2(a)	329,012,033	231,494,495	75,638,799	49,136,319
Employee benefits expenses		(26,532,565)	(13,801,349)	(24,171,045)	(13,459,021)
Depreciation and amortisation expense	2(b)	(1,158,460)	(564,619)	(1,125,992)	(564,619)
Borrowing costs	2(b)	(236,813,709)	(177,182,666)	(2,112,144)	(1,509,878)
Other expenses from operations	2(b)	(28,867,179)	(19,161,626)	(12,687,930)	(12,192,345)
Profit before tax		35,640,120	20,784,235	35,541,688	21,410,456
Income tax expenses	3(a)	(11,163,550)	(6,495,461)	(11,099,501)	(6,489,785)
Profit for the year		24,476,570	14,288,774	24,442,187	14,920,671
Other comprehensive income, net of income tax					
Exchange differences on translating foreign operations		75,249	(49,745)	75,249	(49,745)
Total comprehensive income for the year		24,551,819	14,239,029	24,517,436	14,870,926
Profit attributable to:					
Owners of the company		24,523,045	14,608,119	24,442,187	14,920,671
Non-controlling interests	19	(46,475)	(319,345)	-	-
		24,476,570	14,288,774	24,442,187	14,920,671
Total comprehensive income attributable to:					
Owners of the company		24,598,294	14,558,374	24,517,436	14,870,926
Non-controlling interests	19	(46,475)	(319,345)	-	-
		24,551,819	14,239,029	24,517,436	14,870,926

Notes to the financial statements are included on pages 11 to 43.

Pepper Australia Pty Limited

Statement of financial position
as at 31 December 2012

	Note	Consolidated As at 31 December 2012 $	Consolidated As at 31 December 2011 $	Company As at 31 December 2012 $	Company As at 31 December 2011 $
Assets					
Cash and cash equivalents	23(a)	176,567,460	203,364,971	18,121,364	17,158,477
Receivables	5	12,344,744	15,045,523	48,160,115	35,711,228
Other assets	6	1,036,103	396,745	864,004	396,745
Loans and advances	7	3,198,646,617	3,859,158,863	-	-
Deferred tax asset	3(e)	2,766,850	2,138,331	2,542,527	2,138,331
Investments	8	9,631,352	9,761,584	72,561,524	58,359,178
Property, plant and equipment	9	1,840,868	1,482,026	1,710,995	1,482,026
Goodwill	10	7,703,041	-	-	-
Intangible assets	11	1,807,625	615,689	1,782,610	615,689
Total assets		3,412,344,660	4,091,963,732	145,743,139	115,861,674
Liabilities					
Trade and other payables	12	3,567,200	5,316,903	2,062,680	4,394,288
Current tax liabilities		956,530	2,784,208	878,248	2,784,208
Borrowings	13	3,273,491,662	3,984,628,084	14,683,470	17,607,202
Other liabilities	14	41,583,076	36,473,695	37,281,255	29,420,345
Provisions	15	4,686,750	2,108,174	3,917,638	2,108,174
Deferred tax liabilities	3(e)	4,692,002	2,523,532	4,692,002	2,523,532
Total liabilities		3,328,977,220	4,033,834,596	63,515,293	58,837,749
Net assets		83,367,440	58,129,136	82,227,846	57,023,925
Equity					
Issued capital	17	27,672,479	27,672,479	27,672,479	27,672,479
Reserves	18	995,758	309,273	995,758	309,273
Retained earnings		55,065,023	30,466,729	53,559,609	29,042,173
		83,733,260	58,448,481	82,227,846	57,023,925
Non-controlling interests	19	(365,820)	(319,345)	-	-
Total equity		83,367,440	58,129,136	82,227,846	57,023,925

Notes to the financial statements are included on pages 11 to 43.

Pepper Australia Pty Limited

Statement of changes in equity
for the financial year ended 31 December 2012

	Consolidated					
	Issued capital $	Equity settled employee benefits reserve $	Retained earnings $	Attributable to owners of the parent $	Non-controlling interests $	Total $
Balance at 31 December 2010	22,467,949	-	15,908,355	38,376,304	-	38,376,304
Profit for the year	-	-	14,608,119	14,608,119	(319,345)	14,288,774
Other comprehensive income for the year	-	-	(49,745)	(49,745)	-	(49,745)
Total comprehensive income for the year, net of income tax	-	-	14,558,374	14,558,374	(319,345)	14,239,029
New equity issued during the year	5,204,530	-	-	5,204,530	-	5,204,530
Recognition of share based payments	-	309,273	-	309,273	-	309,273
Balance at 31 December 2011	27,672,479	309,273	30,466,729	58,448,481	(319,345)	58,129,136
Profit for the year	-	-	24,523,045	24,523,045	(46,475)	24,476,570
Other comprehensive income for the year	-	-	75,249	75,249	-	75,249
Total comprehensive income for the year, net of income tax	-	-	24,598,294	24,598,294	(46,475)	24,551,819
Recognition of share based payments	-	686,485	-	686,485	-	686,485
Balance as at 31 December 2012	27,672,479	995,758	55,065,023	83,733,260	(365,820)	83,367,440

	Company					
	Issued capital $	Equity settled employee benefits reserve $	Retained earnings $	Attributable to owners of the parent $	Non-controlling interests $	Total $
Balance at 31 December 2010	22,467,949	-	14,171,247	36,639,196	-	36,639,196
Profit for the year	-	-	14,920,671	14,920,671	-	14,920,671
Other comprehensive income for the year	-	-	(49,745)	(49,745)	-	(49,745)
Total comprehensive income for the year, net of income tax	-	-	14,870,926	14,870,926	-	14,870,926
New equity issued during the year	5,204,530	-	-	5,204,530	-	5,204,530
Recognition of share based payments	-	309,273	-	309,273	-	309,273
Balance at 31 December 2011	27,672,479	309,273	29,042,173	57,023,925	-	57,023,925
Profit for the year	-	-	24,442,187	24,442,187	-	24,442,187
Other comprehensive income for the year	-	-	75,249	75,249	-	75,249
Total comprehensive income for the year, net of income tax	-	-	24,517,436	24,517,436	-	24,517,436
Recognition of share based payments	-	686,485	-	686,485	-	686,485
					-	
Balance as at 31 December 2012	27,672,479	995,758	53,559,609	82,227,846	-	82,227,846

Notes to the financial statements are included on pages 11 to 43.

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Pepper Australia Pty Limited

Statement of cash flows
for the financial year ended 31 December 2012

	Note	Consolidated Year ended 31 December 2012 $	Consolidated Year ended 31 December 2011 $	Company Year ended 31 December 2012 $	Company Year ended 31 December 2011 $
Cash flows from operating activities					
Fee revenue / receipts from trusts		26,813,901	18,553,769	64,046,431	36,175,386
Payments to suppliers and employees		(52,955,567)	(31,665,719)	(36,790,496)	(26,057,858)
Interest received		309,175,298	219,087,159	10,153,558	844,562
Interest and other costs of finance paid		(235,790,374)	(155,367,189)	(2,496,903)	(1,487,931)
Income taxes paid		(11,483,526)	(2,434,536)	(11,273,436)	(2,428,860)
Net cash provided by operating activities	23(b)	35,759,732	48,173,484	23,639,154	7,045,299
Cash flows from investing activities					
Payments for property, plant and equipment		(972,219)	(1,541,433)	(793,604)	(1,541,433)
Payments for intangibles		(1,737,018)	(630,404)	(1,728,277)	(630,404)
Investment in equity		(5,151,139)	(143,000)	(13,262,856)	(143,000)
Amounts advanced to related parties		(536,915)	-	(4,067,307)	-
Payments for arrangement fees		(7,755,651)	(15,841,170)	(2,506,811)	(1,173,845)
(Payment) / repayment of notes		3,117,998	(5,910,556)	5,630,116	(37,676,130)
Loan collections		1,301,194,087	826,299,668	-	-
Broker assumption fee		(2,891,032)	19,151,618	(2,891,032)	19,151,618
Loan advances		(526,406,935)	(377,634,956)	(89,370)	-
Purchase of GE portfolio		-	(3,772,711,377)	-	-
Purchase of Suncorp portfolio		(111,398,816)	-	-	-
Net cash (used in)/provided by investing activities		647,462,360	(3,328,961,610)	(19,709,141)	(22,013,194)
Cash flows from financing activities					
Proceeds from issue of capital		-	4,902,930	-	4,902,930
Proceeds from borrowings		1,356,206,176	4,072,399,963	15,467,713	18,014,984
Repayment of borrowings		(2,065,898,142)	(647,902,311)	(18,107,202)	-
Borrowing costs		(327,637)	-	(327,637)	-
Net cash (used in)/provided by financing activities		(710,019,603)	3,429,400,582	(2,967,126)	22,917,914
Net increase / (decrease) in cash and cash equivalents		(26,797,511)	148,612,456	962,887	7,950,019
Cash and cash equivalents at the beginning of the financial year		203,364,971	54,752,515	17,158,477	9,208,458
Cash and cash equivalents at the end of the financial year	23(a)	176,567,460	203,364,971	18,121,364	17,158,477

Notes to the financial statements are included on pages 11 to 43.

1. Significant accounting policies

Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards – Reduced Disclosure Regime, and comply with other requirements of the law.

The financial statements include the separate financial statements of the company and the consolidated financial statements of Pepper Australia Pty Limited and its controlled entities (the Group). For the purposes of preparing the financial statements, the Company is a for-profit entity.

They were authorised for issue by the directors on 24 April 2013.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for revaluation of certain non-current assets and financial instruments that are measured at re-valued amounts or fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Adoption of new and revised accounting standards

During the financial year, the company has adopted all the new and revised standards and interpretations issued by the Australian Accounting and Standards Board ("AASB") that are relevant to its operations and issued for the current accounting year.

New and revised standards and interpretations issued for the current period that have been adopted by the entity include:

AASB 124 'Related Party Disclosures' (revised December 2009)

AASB 124 (revised December 2009) has been revised on the following two aspects: (a) AASB 124 (revised December 2009) has changed the definition of a related party and (b) AASB 124 (revised December 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in AASB 124 (revised December 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard. The related party disclosures set out in note 22 to the consolidated financial statements reflect the application of the revised Standard.

AASB 2009-12 'Amendments to Australian Accounting Standards'

The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2009-12 has not had any material effect on amounts reported in the Group's consolidated financial statements.

AASB 2010-5 'Amendments to Australian Accounting Standards'

The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2010-5 has not had any material effect on amounts reported in the Group's consolidated financial statements.

AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'

The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred and derecognised but the transferor retains some level of continuing exposure in the asset.

1. Significant accounting policies (continued)

Adoption of new and revised accounting standards (continued)

AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets' (continued)

To date, the Group has not entered into any transfer arrangements of financial assets that are derecognised but with some level of continuing exposure in the asset. Therefore, the application of the amendments has not had any material effect on the disclosures made in the consolidated financial statements.

Early adoption of accounting standards

The directors have elected under s334(5) of the Corporation Act 2001 to apply AASB 1053 'Application of Tiers of Australian Accounting Standards', AASB 2010-2 'Amendments to Australian Accounting Standards arising from Reduce Disclosure Requirements' in advance of their effective dates. These standards are not required to be applied until annual reporting periods beginning on or after 1 July 2013.

Going concern

The financial statements have been prepared on the basis that the company and Group are going concerns.

The Pepper Australia Pty Limited Group incorporates two settlement warehouse facilities which are due to be rolled over from time to time. The rollover period is between one to two years. The legal maturity of loans funded can be up to 40 years. It is expected that the current warehouse facilities will be rolled over for a further period.

The Group also incorporates three Prime and one Specialist warehouse facility, established as part of the GE portfolio acquisition and one lease receivable warehouse facility established as part of the Suncorp acquisition. The maturity dates of these facilities are either 24 or 36 months from date of acquisition. It is expected that the GE related warehouse facilities will be refinanced at maturity via securitisation transactions or will be rolled over for a further period of time. It is also expected that the lease receivable warehouse facility will be rolled over for a further period of time.

If a warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact on the Group would be the loss of future income streams from excess spread, being the difference between the mortgage rate and the cost of funds, fee income and write-off of any unamortised balance of deferred transaction costs on the loans. In addition, the Group has cash trapped in the warehouses as collateral for the warehouse funders.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in Note 1, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) *Critical judgments in applying the company's accounting policies*

The management is of the opinion that any instances of application of judgements, apart from those involving estimates (see (ii) below) are not expected to have a significant effect on the amounts recognised in the financial statements.

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1. Significant accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) *Key sources of estimation uncertainty*

The management believes that, except as disclosed below, there are no key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of assets

As part of the process of accounting for a business combination assets and liabilities are measured at fair value at the date of acquisition by taking the expected future cash flows generated by each asset and discounted. Inherent in that process management used a discount rate of 9.5% to reflect the expected return by the owners of the group.

Business valuation technique

Management has approved the development of in-house models which allow the group to value various trust structures and establish overall business value. The variables used are based on historical performances of similar group structures, publically available comparative structures, data published by various rating agencies, advice provided on a case by case basis by the warehouse providers and management expectation of future performance of the business. Management is confident that the assumptions used in the models are appropriate for the purpose for which they were created.

Determination of Impairment losses on investment in consolidated entities

Determining whether the company's investment in a subsidiary is impaired requires an estimation of the fair value less cost to sell or the value in use of the investment in subsidiary. The fair value less cost to sell requires the company to estimate the fair value of the subsidiary or its underlying assets. Where there are no active markets for the assets, management has to exercise judgment in estimating the fair value of these assets. In addition, the value in use calculation requires the company to estimate the future cash flow expected from the investment in subsidiary or its cash-generating units as well as to estimate an appropriate discount rate in order to calculate the present value of the future cash flow. The Management is of the view that there is no impairment to be recognised in respect of the company's investments in subsidiary. The carrying amounts of the investment in subsidiary are disclosed on the face of the statement of financial position.

Determination of impairment losses on loans and advances

The group reviews its loans and advances to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a loan before the decrease can be identified within an individual loan. Such evidence may include payment defaults, increased historic loss rates and trends in the Australian specialist mortgage market. The carrying value of loans and advances is set out in Note 7.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of Pepper Australia Pty Limited (the Company or parent entity) as at 31 December 2012 and the results of all controlled entities for the year then ended. Pepper Australia Pty Limited and its controlled entities together are referred to in these financial statements as the Group or the consolidated entity.

Controlled entities are all those entities (including special purpose entities) over which the Group has the power to govern directly or indirectly decision making in relation to financial and operating policies, so as to obtain benefits from their activities.

1. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All intercompany balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Revenue recognition

Revenue arises in the course of ordinary activities of the consolidated entity and is recognised 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 sell them immediately or in the near term. These loans are recognised on an amortised cost basis in the statement of financial position. 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, deferred establishment fees (DEFs), loan premium income and early termination interest adjustments (ETIAs) 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 parent entity 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.

Application fees

These fees cover the cost of processing mortgage loan applications. To the extent that these fees represent a recovery of cost or a charge for services they are taken to income when the loan settles.

Mortgage risk fees

These fees cover risk associated with the origination of specialty 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.

Deferred establishment fees

For certain mortgage loans originated prior to 1 July 2011, borrowers are contracted to pay an establishment fee for which payment is deferred until such time as they repay the outstanding loan balance. However, these fees are not charged if the loan is repaid after a specified timeframe. Income associated with deferred establishment fees are recognised as income over the estimated life of the loan on an effective yield basis as part of fees.

Trust manager and servicer fee income

Revenue in the parent entity is recognised in line with amounts due and payable as set out in the relevant Trust Manager and Servicer fee letters pertaining to each trust.

1. Significant accounting policies (continued)

(b) Revenue recognition (continued)

Advisory fee income

Fee income is recognised and invoiced in the period in which it is earned.

(c) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income 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.

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.

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.

1. Significant accounting policies (continued)

(c) Income tax (continued)

Current and deferred tax for the year

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 Limited, 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. Details about the tax funding agreement are disclosed in note 3.

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 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 determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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), which 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 fluctuated 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).

(e) Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

1. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

The following estimated useful lives are used in the calculation of depreciation:

- Leasehold improvements 5 years
- Computer equipment 2.5 - 7 years
- Office furniture 3 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see (n) below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(g) Financial assets and investments

The Group is required to classify its financial assets in the following categories: fair value through profit or loss / held-for-trading, loans and receivables, held-to-maturity, and available-for-sale. All of the Group's financial assets are classified as loans and receivables.

Loans and Receivables

Loans and receivables 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 receivable.

Deferred transaction costs

Transaction costs representing set up costs specific to the trusts are capitalised on the balance sheet of the relevant trust as part of loans and receivables. 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.

1. Significant accounting policies (continued)

(g) Financial assets and investments (continued)

Deferred transaction costs (continued)

Transaction costs incurred by the parent entity, as manager of the mortgage program, in facilitating the trust structure programme are capitalised on the balance sheet of the parent entity 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 method. The average expected life of the trusts is estimated to be 24-60 months. On a consolidated basis, these costs are included as part of the amortised cost of the loans and receivables.

(h) 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. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date.

The Group choose not to adopt hedge accounting. Changes in the fair value of any derivative instrument are recognised immediately in the statement of comprehensive income as interest revenue or expense.

(i) Impairment of assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired. If any such evidence exists, the Group makes a formal estimation of the asset's recoverable amount.

Recoverability of receivables and impairment of loan assets are reviewed on an ongoing basis. All bad debts are written off in the year in which they are identified. A provision for doubtful receivables is established when the loan is in arrears as at the end of each reporting period and that it is likely there will be a shortfall when the loan is eventually discharged. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the Statement of comprehensive income.

The Group collectively assess loans by making judgements as to whether there is any observable data which indicates there is a significant decrease in the estimated future cash flows from mortgage loans receivables before the decrease can be identified with an individual loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for mortgage loans with credit risk characteristics similar to those in the portfolio when scheduling its future cash flow. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. Changes to assumptions used for estimating future cash flow could result in a change in provision for loan losses and have a direct impact on the impairment charge.

(j) 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.

(k) 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.

1. Significant accounting policies (continued)

(l) Intangible assets

Intangible assets acquired separately

Licence fees relating to the purchase of a licence for software from an external party and costs relating to the purchase of computer related software have been capitalised as intangible assets and are carried at cost less accumulated amortisation. Amortisation is recognised on a straight-line basis over their estimated useful lives of two to three years. 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.

(m) Interest-bearing liabilities

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

(n) Borrowing cost

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 and loss in the period in which they are incurred.

(o) Trade and other payables

These amounts represent unsecured liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid.

(p) 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).

1. Significant accounting policies (continued)

(p) Provisions (continued)

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.

(q) 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.

(r) 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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 24.

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.

(s) 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 acquire 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.

1. Significant accounting policies (continued)

(s) Business Combinations (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value:

- 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 acquire 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, 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 acquire 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.

The policy described above is applied to all business combinations that take place on or after 1 July 2009.

1. Significant accounting policies (continued)

(t) 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 purposes 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 statement of comprehensive income. 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.

(u) Goods and services tax (GST)

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

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

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

(v) Reclassification of comparatives

In order to more appropriately disclose certain revenue and expense items, the following amounts have been reclassified in the prior year's Statement of Comprehensive Income.

	Consolidated $	Company $
from Other expenses from operations to Borrowing costs	713,928	-

In order to more appropriately disclose certain balances, the following amounts have been reclassified in the prior year's Statement of Financial Position.

	Consolidated $	Company $
from Trade and other payables to Borrowings	1,055,349	-

In order to more appropriately disclose certain movements of cash, the following amounts have been reclassified in the prior year's Statement of Cash Flows

	Consolidated $	Company $
from Borrowing costs to Interest and other costs of finance paid	-	943,173

Notes to the financial statements (continued)

2. Revenue and expenses

The profit from operations before income tax includes the following items of revenue and expense:

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $
(a) Revenue				
Interest revenue				
- Mortgage interest	297,256,615	209,171,049	-	-
- Interest from investments	29,706	1,620,481	32,862,181	22,200,711
- Bank interest	5,486,689	6,025,810	355,088	962,810
Fee revenue	26,239,023	14,575,157	27,601,233	16,831,772
	329,012,033	231,392,497	60,818,502	39,995,293
Distributions from trusts	-	-	14,820,297	9,141,026
Loan recoveries	-	101,998	-	-
	329,012,033	231,494,495	75,638,799	49,136,319
(b) Expenses				
Depreciation and amortisation expenses:				
Amortisation of intangibles	566,398	225,959	561,357	225,959
Property, plant and equipment	592,062	338,660	564,635	338,660
	1,158,460	564,619	1,125,992	564,619
Borrowing costs:				
Coupon payments	22,409,965	20,548,559	-	-
Interest – Mortgage facility	212,565,348	155,753,112	-	-
Interest – Working Capital facility	1,838,396	880,995	1,838,396	880,995
Other interest expenses	-	-	273,748	628,883
	236,813,709	177,182,666	2,112,144	1,509,878
Other expenses from operations:				
Publications and advertising	1,355,081	1,210,071	1,313,511	1,210,071
Travel	783,699	723,194	702,396	715,668
Rent	1,573,773	1,085,166	1,437,901	1,085,166
Telephone	730,417	241,596	718,562	241,596
Consulting	1,429,731	989,284	256,597	194,284
Legal fees	1,528,539	474,156	1,427,852	433,801
License fees	467,868	339,733	467,868	339,733
Computer	917,714	370,789	916,414	370,762
Loan losses	6,080,475	2,165,930	-	-
Remuneration of auditors	848,102	755,892	776,446	755,892
Other professional services	243,143	182,350	237,891	182,350
Transitional service agreement fee	501,960	5,780,252	501,960	5,780,252
Loan enforcement expenses	6,348,165	2,697,934	-	-
External trustee expenses	1,236,582	644,449	-	-
Management fee	1,350,000	-	1,350,000	-
Other	3,471,930	1,500,830	2,580,532	882,770
	28,867,179	19,161,626	12,687,930	12,192,345

3. Income tax

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $
(a) Income tax recognised in profit or loss:				
Current tax				
Current tax expense in respect of the current year	9,330,278	5,342,962	9,218,359	5,337,286
Adjustments recognised in the current year in relation to the current tax of prior years	116,868	(95,829)	116,868	(95,829)
	9,447,146	5,247,133	9,335,227	5,241,457
Deferred tax				
Deferred tax expense recognised in the current year	1,716,404	1,248,328	1,764,274	1,248,328
	1,716,404	1,248,328	1,764,274	1,248,328
Total income tax expense recognised in the current year relating to continuing operations	11,163,550	6,495,461	11,099,501	6,489,785

(b) The income tax expense for the year can be reconciled to the accounting profit as follows:

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Profit before tax from continuing operations	35,640,120	20,784,235	35,541,688	21,410,456
Income tax expense calculated at 30% (2011: 30%)	10,692,036	6,235,271	10,662,506	6,423,137
Effect of income that is exempt from taxation	(109,679)	(902,495)	(103,448)	(1,096,037)
Effect of expenses that are not deductible in determining taxable profit	464,325	1,258,514	423,575	1,258,514
	11,046,682	6,591,290	10,982,633	6,585,614
Adjustments recognised in the current year in relation to the current tax of prior years	116,868	(95,829)	116,868	(95,829)
Income tax expense recognised in profit or loss (relating to continuing operations)	11,163,550	6,495,461	11,099,501	6,489,785

The tax rate used for the 2012 and 2011 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law

(c) Income tax recognised in other comprehensive income

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Current tax	24,429	(21,320)	24,429	(21,320)
Deferred tax	-	-	-	-
Total income tax recognised in other comprehensive income	24,429	(21,320)	24,429	(21,320)

	Consolidated Year ended 31 December 2012 $	Consolidated Year ended 31 December 2011 $	Company Year ended 31 December 2012 $	Company Year ended 31 December 2011 $

3. Income tax (continued)

(d) Deferred tax balances

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Opening balance	(385,201)	863,127	(385,201)	863,127
Recognised in profit or loss	(1,716,404)	(1,248,328)	(1,764,274)	(1,248,328)
Acquisitions	176,453	-	-	-
Closing balance	(1,925,152)	(385,201)	(2,149,475)	(385,201)

Breakdown of closing balance as follows:

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Employee expenses	852,731	388,312	649,708	388,312
Provision	581,870	388,333	560,570	388,333
Deal Costs	(3,123,289)	(1,313,334)	(3,123,289)	(1,313,334)
Doubtful Debts	1,206,500	843,312	1,206,500	843,312
Deferred Revenue	(946,919)	(564,676)	(946,919)	(564,676)
Other financial assets	(496,045)	-	(496,045)	-
Other	-	(127,148)	-	(127,148)
	(1,925,152)	(385,201)	(2,149,475)	(385,201)

(e) Deferred tax balances are presented in the statement of financial position as follows:

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Deferred tax assets	2,766,850	2,138,331	2,542,527	2,138,331
Deferred tax liabilities	(4,692,002)	(2,523,532)	(4,692,002)	(2,523,532)
	(1,925,152)	(385,201)	(2,149,475)	(385,201)

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 purposes of the tax consolidation system is Pepper Australia Pty Limited.

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 Limited 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.

4. Key management personnel compensation

The specified directors of Pepper Australia Pty Limited during the financial year were:

Matthew Burlage
Michael Culhane
Seumas Dawes
David Holmes — Alternate director to Patrick Tuttle
Jonathan Laredo
Todd Lawler
Steven Simpson
Cameron Small
Patrick Tuttle

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Specified director compensation:	3,666,938	4,137,198	3,666,938	4,137,198

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $
5. Receivables				
Goods and services tax receivable	223,079	1,033,552	21,053	264,047
Amounts receivable from related parties	951,677	-	39,146,435	26,912,812
Trail commission deed receivables	8,004,542	7,848,382	8,004,542	7,848,382
Trust collection deed receivables	-	5,026,023	-	-
Trade receivables	2,060,708	-	-	-
Other debtors	1,104,738	1,137,566	988,085	685,987
	12,344,744	15,045,523	48,160,115	35,711,228
6. Other assets				
Prepayments	1,032,879	395,070	860,780	395,070
Other	3,224	1,675	3,224	1,675
	1,036,103	396,745	864,004	396,745
7. Loans and advances				
Loans and advances carried at amortised cost – Securitised	858,343,751	238,367,583	-	-
Loans and advances carried at amortised cost – Warehouses	2,340,302,866	3,620,791,280	-	-
	3,198,646,617	3,859,158,863	-	-
Provision analysis (included in the balance above)				
Movement of specific impairment provision				
Opening balance	1,402,000	1,113,000	-	-
Provided for during the year	6,559,273	1,325,000	-	-
Loan assets written-off, previously provided for	(4,875,331)	(916,042)	-	-
Losses reversed	(439,320)	(221,956)	-	-
Amounts recovered during the year	-	101,998	-	-
Closing balance	2,646,622	1,402,000	-	-
Movement of collective provision				
Opening balance	1,409,039	1,801,268	-	-
Released during the year	(33,993)	(392,229)	-	-
Closing balance	1,375,046	1,409,039	-	-

The Group elected to adopt AASB 2008-10 Amendments to Australian Accounting Standards - Reclassification of Financial Assets. This reclassification was applied from 1 July 2008.

8. Investments

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $
At cost				
Shares in controlled entities	-	-	7,828,543	143,000
Shares in related party	935,350	-	935,350	-
Units in trusts (note 20)	1,327,793	1,327,987	9,508,811	1,338,259
Notes in warehouse trusts	3,675,521	5,110,007	39,496,132	41,444,430
Notes in securitised trusts	-	-	11,100,000	12,109,899
Other	3,692,688	3,323,590	3,692,688	3,323,590
	9,631,352	9,761,584	72,561,524	58,359,178

9. Property, plant and equipment

	Consolidated			
	Leasehold Improvements $	Computer Equipment $	Office Furniture $	Total $
Gross carrying amount				
Balance at 31 December 2010	777,749	1,345,356	84,443	2,207,548
Additions	696,167	827,672	17,594	1,541,433
Disposals	-	(368,207)	(81,824)	(450,031)
Balance at 31 December 2011	1,473,916	1,804,821	20,213	3,298,950
Additions	319,903	602,902	16,927	939,732
Acquisitions through business combination	1,478	5,765	3,930	11,173
Disposals	(777,749)	(836,259)	(2,619)	(1,616,627)
Balance at 31 December 2012	1,017,548	1,577,229	38,451	2,633,228
Accumulated depreciation				
Balance at 31 December 2010	723,733	1,166,412	38,151	1,928,296
Depreciation expense	98,917	191,069	48,673	338,659
Disposals	-	(368,207)	(81,824)	(450,031)
Balance at 31 December 2011	822,650	989,274	5,000	1,816,924
Depreciation expense	158,040	422,348	11,674	592,062
Disposals	(777,749)	(836,258)	(2,619)	(1,616,626)
Balance at 31 December 2012	202,941	575,364	14,055	792,360
Net book value				
As at 31 December 2011	651,266	815,547	15,213	1,482,026
As at 31 December 2012	814,607	1,001,865	24,396	1,840,868

9. Property, plant and equipment (continued)

	Company			
	Leasehold Improvements $	Computer Equipment $	Office Furniture $	Total $
Gross carrying amount				
Balance at 31 December 2010	777,749	1,345,356	84,443	2,207,548
Additions	696,167	827,672	17,594	1,541,433
Disposals	-	(368,207)	(81,824)	(450,031)
Balance at 31 December 2011	1,473,916	1,804,821	20,213	3,298,950
Additions	236,395	553,348	3,862	793,605
Disposals	(777,749)	(836,259)	(2,619)	(1,616,627)
Balance at 31 December 2012	932,562	1,521,910	21,456	2,475,928
Accumulated depreciation				
Balance at 31 December 2010	723,733	1,166,412	38,151	1,928,296
Depreciation expense	98,917	191,069	48,673	338,659
Disposals	-	(368,207)	(81,824)	(450,031)
Balance at 31 December 2011	822,650	989,274	5,000	1,816,924
Depreciation expense	145,428	413,137	6,070	564,635
Disposals	(777,749)	(836,258)	(2,619)	(1,616,626)
Balance at 31 December 2012	190,329	566,153	8,451	764,933
Net book value				
As at 31 December 2011	651,266	815,547	15,213	1,482,026
As at 31 December 2012	742,233	955,757	13,005	1,710,995

10. Goodwill

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $
Cost	7,703,041	-	-	-
Accumulated impairment losses	-	-	-	-
	7,703,041	-	-	-
Cost				
Balance at beginning of year	-	-	-	-
Additional amounts recognised from business combinations occurring during the year (note 26)	7,703,041	-	-	-
Balance at end of year	7,703,041	-	-	-

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $

11. Intangible assets

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Licence fee	1,657,691	610,994	1,627,635	610,994
Accumulated amortisation	(625,722)	(340,054)	(620,681)	(340,054)
	1,031,969	270,940	1,006,954	270,940
Software costs	1,377,684	721,245	1,377,684	721,245
Accumulated amortisation	(602,028)	(376,496)	(602,028)	(376,496)
	775,656	344,749	775,656	344,749
	1,807,625	615,689	1,782,610	615,689
Movement in Licence fee				
Opening balance	270,940	33,573	270,940	33,573
Costs incurred during year	1,046,697	288,853	1,016,642	288,854
Amounts amortised during year	(285,668)	(51,486)	(280,628)	(51,487)
Closing balance	1,031,969	270,940	1,006,954	270,940
Movement in Software costs				
Opening balance	344,749	177,671	344,749	177,671
Costs incurred during year	711,637	341,551	711,636	341,550
Amounts amortised during year	(280,730)	(174,473)	(280,729)	(174,472)
Closing balance	775,656	344,749	775,656	344,749

12. Trade and other payables

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Trade payables	831,493	551,047	20,918	451,828
Audit and other services	772,481	569,740	701,481	569,740
Accrued expenses	1,963,226	4,196,116	1,340,281	3,372,720
	3,567,200	5,316,903	2,062,680	4,394,288

13. Borrowings

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
At amortised cost:				
Warehouse facility - secured *(i)*	2,367,839,264	3,713,529,246	-	-
Notes payable - secured *(ii)*	878,967,232	240,718,807	-	-
Loan facility – secured *(iii)*	14,683,470	17,607,202	14,683,470	17,607,202
Units in Investment Fund	4,314,127	-	-	-
Accrued interest payable	7,687,569	12,772,829	-	-
	3,273,491,662	3,984,628,084	14,683,470	17,607,202

(i) Fully secured by the loans and advances and other cash collateral residing in the warehouse trusts (note 7), the current value of which is less than the value of the mortgage assets.
(ii) Notes payable are secured only on the assets of each of the individual securitisation trusts.
(iii) Working capital loan secured over the assets of the Group.

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $

14. Other liabilities

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Intercompany with related parties	434,888	333,677	12,320,308	1,833,166
Unearned income	-	-	2,065,286	3,159,624
M Note interest payable	14,657,548	9,738,025	-	-
Future trail commission	18,938,086	24,427,555	18,938,086	24,427,555
Contingent consideration payable	3,914,696	-	3,914,696	-
Other liabilities	3,637,858	1,974,438	42,879	-
	41,583,076	36,473,695	37,281,255	29,420,345

15. Provisions

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Employee benefits	2,543,477	846,164	2,014,070	846,164
Group Tax	248,423	-	176,514	-
Payroll tax	222,346	31,307	205,476	31,307
Fringe benefits tax	146,170	151,523	148,035	151,523
Borrower incentive	183,188	197,183	183,188	197,183
Other	1,343,146	881,997	1,190,355	881,997
	4,686,750	2,108,174	3,917,638	2,108,174

16. Obligations under finance leases

The Group leased certain of its software under finance leases. The average lease term is 1 year (2011: Nil). The Group has options to purchase the equipment for a nominal amount at the end of the lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Finance lease liabilities

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Not later than one year	307,300	-	307,300	-
Later than one year and not later than five years	-	-	-	-
Later than 5 years	-	-	-	-
	307,300	-	307,300	-

17. Issued capital

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $
103,791 fully paid ordinary shares (31 December 2011: 103,791)	26,171,629	26,171,629	26,171,629	26,171,629
14,250 fully paid A class shares (31 December 2011: 14,250)	1,500,850	1,500,850	1,500,850	1,500,850
1 fully paid B class shares (31 December 2011: Nil)	-	-	-	-
	27,672,479	27,672,479	27,672,479	27,672,479

	No. of Shares	Share Capital $	No. of Shares	Share Capital $
Fully paid ordinary shares				
Balance at 31 December 2010	87,500	21,268,699	87,500	21,268,699
Issue of shares (i)	16,291	4,902,930	16,291	4,902,930
Balance at 31 December 2011	103,791	26,171,629	103,791	26,171,629
Balance at 31 December 2012	103,791	26,171,629	103,791	26,171,629

(i) 12,750 shares were issued to the Ultimate Parent Company. The remaining 3,541 were issued to an external party.

	No. of Shares	Share Capital $	No. of Shares	Share Capital $
Fully paid A class shares				
Balance at 31 December 2010	9,750	1,199,250	9,750	1,199,250
Issue of shares under company's share option plan (note 24)	4,500	301,600	4,500	301,600
Balance at 31 December 2011	14,250	1,500,850	14,250	1,500,850
Balance at 31 December 2012	14,250	1,500,850	14,250	1,500,850
Fully paid B class shares				
Balance at 31 December 2011	-	-	-	-
Issue of shares	1	-	1	-
Balance at 31 December 2012	1	-	1	-

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $

17. Issued capital (continued)

Ordinary shares carry one vote per share and carry the right to dividends.
A class shares carry one vote per share and carry the right to dividends.
B class shares carry no voting rights but do carry the right to dividends.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

During the year the company paid a fully franked dividend of $Nil (2011: $Nil)

18. Reserves

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Equity settled employee benefits	995,758	309,273	995,758	309,273
	995,758	309,273	995,758	309,273

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Equity settled employee benefits				
Balance at beginning of year	309,273	-	309,273	-
Arising on share based payments	686,485	610,873	686,485	610,873
Exercised during the year	-	(301,600)	-	(301,600)
Balance at end of year	995,758	309,273	995,758	309,273

The above equity-settled employee benefits reserve relates to share options granted by the Company to its employees under its employee share option plan. Further information about share-based payments to employees is set out in note 24.

19. Non-controlling Interests

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
Balance at beginning of year	(319,345)	-	-	-
Share of profit (loss) for year	(46,475)	(319,345)	-	-
Balance at end of year	(365,820)	(319,345)	-	-

20. Controlled entities

The following controlled entities have been included in the consolidated financial statements:

Name Of Controlled Entity	Country Of incorporation / creation	Ownership interest 2012 %	Ownership interest 2011 %	Residual interest 2012 %	Residual interest 2011 %
Parent entity					
Pepper Australia Pty Limited	Australia				
Controlled entities					
Pepper Homeloans Pty Limited	Australia	100%	100%	-	-
Pepper Finance Corporation Limited	Australia	100%	100%	-	-
Pepper Capital Corporation Limited	Australia	-	-	-	-
Pepper Australia Investments Pty Ltd	Australia	100%	100%	-	-
Pepper Property Group Pty Ltd (formerly Grant Samuel Property Pty Ltd)	Australia	100%	-	-	-
Pepper Property (VIC) Pty Ltd (formerly Grant Samuel Property (VIC) Pty Ltd)	Australia	100%	-	-	-
Pepper Property (WA) Pty Ltd (formerly Grant Samuel Property (WA) Pty Ltd)	Australia	100%	-	-	-
Pepper Corporate Real Estate Pty Ltd (formerly GS Corporate Real Estate Pty Limited)	Australia	100%	-	-	-
Pepper Property Advisory Pty Ltd (formerly GS Real Estate Advisory Pty Limited)	Australia	100%	-	-	-
Pepper Property Capital Pty Ltd (formerly Grant Samuel Capital Pty Limited)	Australia	100%	-	-	-
Pepper Property Funds Management WA Pty Ltd (formerly Grant Samuel Property Funds Management WA Pty Limited)	Australia	100%	-	-	-
Pepper Investment Management Limited	Australia	75%	100%	-	-
Pepper High Income Fund	Australia	65.4%	-		
Pepper SW1 Pty Ltd	Australia	100%	100%	-	-
Pepper Asset Finance Pty Limited	Australia	100%	100%	-	-
Pepper New Zealand Limited	New Zealand	100%	100%	-	-
Pepper New Zealand (Beneficiary) Limited	New Zealand	100%	100%	-	-
Pepper New Zealand (Settlor) Limited	New Zealand	100%	100%	-	-
Morgij Holdings Pty Limited	Australia	50.5%	50.5%	-	-
Pepper Mortgage Warehouse Trust 2009-2	Australia	-	-	100%	100%
Pepper Mortgage Warehouse Trust 2010-1	Australia	-	-	100%	100%
Pepper Mortgage Warehouse Trust 2010-2	Australia	-	-	100%	100%
First Permanent RMBS Trust 2006-1	Australia	-	-	100%	100%
Pepper Residential Securities Trust No. 7	Australia	-	-	100%	100%
Pepper Residential Securities Trust No. 8	Australia	-	-	100%	100%
Pepper Residential Securities Trust No. 9	Australia	-	-	100%	-
Pepper Prime Mortgage Warehouse Trust 2011-1	Australia	-	-	100%	100%
Pepper Prime Mortgage Warehouse Trust 2011-2	Australia	-	-	100%	100%
Pepper Prime Mortgage Warehouse Trust 2011-3	Australia	-	-	100%	100%
Pepper NC Mortgage Warehouse Trust 2011-1	Australia	-	-	100%	100%
Pepper Prime 2012-1 Trust	Australia	-	-	100%	-
Pepper Auto and Equipment Finance Trust 2012-1	Australia	-	-	100%	-

During the financial year, Pepper Australia Pty Ltd acquired Pepper Property Group for its fair value.

21. Contingent liabilities and contingent assets

(a) The company has a guarantee in place covering all the tenant's obligations under its office lease and car parking agreements for Levels 9 and 10, 146 Arthur Street North Sydney. The amount of this guarantee at 31 December 2012 is $437,476 (2011:$437,476).

(b) The company has a guarantee in place covering all the tenant's obligations under its office lease and car parking agreements for Level 5, 18 Smith Street Parramatta. The amount of this guarantee at 31 December 2012 is $310,783 (2011:$310,783).

(c) The company has a guarantee in place covering all the tenant's obligations under its office lease Part Level 4, 56 William Street Perth. The amount of this guarantee at 31 December 2012 is $18,544 (2011:$Nil).

(d) The company does not have any contingent assets.

22. Related party transactions

(a) Equity interests in controlled entities

Details of the percentage of ordinary shares or units held in controlled entities are disclosed in note 20 to the financial statements.

During the financial year, Pepper Australia Pty Ltd acquired Pepper Property Group for its fair value.

(b) Equity interests in other related parties

Details of controlling interests held in other related parties are disclosed in note 20 to the financial statements.
Details of non-controlling interests held in other related parties are as follows –

Pepper NZ Mortgage Warehouse Trust 2011-1	5.94%
Pepper NZ Mortgage Warehouse Trust 2011-2	6.01%

(c) Key management personnel and retirement benefits

Details of key management personnel and retirement benefits are disclosed in note 4 to the financial statements.

(d) Transactions within the group

The group includes:

- the ultimate Australian parent entity in the group; and
- controlled entities.

The immediate and the ultimate parent entity of the Group is Pepper Group (Singapore) Pte Limited, a company based in Singapore.

Amounts receivable from or payable to entities in the group are disclosed in notes 5 and 14 to the financial statements. Amounts receivable or payable to related parties are non-interest bearing.

No guarantees have been given or received. No expense has been recognised in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

22. Related party transactions (continued)

Pepper Australia Pty Limited received trust manager and servicer fees from the related trusts. The amounts received during the year for each of the trusts are as follows:

	Year ended 31 December 2012 $	Year ended 31 December 2011 $
Pepper Mortgage Warehouse Trust 2009-2	756,741	326,771
Pepper Mortgage Warehouse Trust 2010-1	1,095,324	642,172
Pepper Mortgage Warehouse Trust 2010-2	209,716	294,718
Pepper Residential Securities Trust No. 7	41,943	295,535
Pepper Residential Securities Trust No. 8	852,485	1,172,251
Pepper Residential Securities Trust No. 9	959,278	-
Pepper Prime Mortgage Warehouse Trust 2011-1	4,907,612	2,625,381
Pepper Prime Mortgage Warehouse Trust 2011-2	5,885,514	3,118,225
Pepper Prime Mortgage Warehouse Trust 2011-3	1,598,081	842,529
Pepper NC Mortgage Warehouse Trust 2011-1	1,224,728	628,954
Pepper Prime 2012-1 Trust	279,575	-
Pepper Auto and Equipment Finance Trust 2012-1	199,067	-
Pepper NZ Mortgage Warehouse Trust 2011-1	1,528,710	795,775
Pepper NZ Mortgage Warehouse Trust 2011-2	1,501,242	795,236

Pepper Australia Pty Limited received residual distributions from the related trusts. The profit generated during the year for each of the trusts is as follows:

Pepper Mortgage Warehouse Trust 2009-2	4,593,760	1,349,982
Pepper Mortgage Warehouse Trust 2010-1	2,154,406	1,739,584
Pepper Mortgage Warehouse Trust 2010-2	527,119	1,250,406
Pepper Residential Securities Trust No. 7	400,128	1,810,190
Pepper Residential Securities Trust No. 8	2,989,272	4,945,900
Pepper Residential Securities Trust No. 9	4,497,839	-
Pepper Auto and Equipment Finance Trust 2012-1	2,932,382	-
Pepper High Income Fund	132,475	-

Pepper Australia Pty Limited received interest payments from the related trusts in respect of issued Notes held in that trust. The amounts received during the year for each of the trusts are as follows:

Pepper Mortgage Warehouse Trust 2009-2	976,731	42,311
Pepper Mortgage Warehouse Trust 2010-1	162,382	431,536
Pepper Mortgage Warehouse Trust 2010-2	298,554	108,865
Pepper Residential Securities Trust No. 8	803,308	863,996
Pepper Residential Securities Trust No. 9	659,538	-
Pepper Prime Mortgage Warehouse Trust 2011-1	1,381,926	3,714,017
Pepper Prime Mortgage Warehouse Trust 2011-2	1,455,163	7,135,296
Pepper Prime Mortgage Warehouse Trust 2011-3	540,616	1,142,285
Pepper NC Mortgage Warehouse Trust 2011-1	2,103,568	5,622,320
Pepper Prime 2012-1 Trust	12,484	-

22. Related party transactions (continued)

	Year ended 31 December 2012 $	Year ended 31 December 2011 $
Pepper Auto and Equipment Finance Trust 2012-1	241,714	-
Pepper NZ Mortgage Warehouse Trust 2011-1	426,042	200,869
Pepper NZ Mortgage Warehouse Trust 2011-2	506,779	210,217

Pepper Capital Corporation Limited, a related party which is not a member of the group, received interest payments from the related trusts in respect of issued Notes held in that trust. The amounts received during the year for each of the trusts are as follows:

Pepper Prime Mortgage Warehouse Trust 2011-1	206,335	347,690
Pepper Prime Mortgage Warehouse Trust 2011-3	116,716	110,270

First Permanent RMBS Trust 2006-1 received interest payments from the related trusts in respect of issued Notes held in that trust. The amounts received during the year for each of the trusts are as follows:

Pepper Mortgage Warehouse Trust 2010-2	104,649	112,503

Pepper Finance Corporation Limited, received trustee fees from the related trusts. The amounts received during the year for each of the trusts are as follows:

Pepper Mortgage Warehouse Trust 2009-2	15,135	4,907
Pepper Mortgage Warehouse Trust 2010-1	21,907	12,844
Pepper Mortgage Warehouse Trust 2010-2	5,243	7,368

Pepper Group (Singapore) Pte Limited, a related party which is not a member of the Group, received management fees from members of the Group. The amount received during the year was as follows:

Pepper Australia Pty Limited	1,350,000	-

Pepper Australia received management fees from controlled entities. The amount received during the year was as follows:

Pepper Property Group Pty Limited	260,419	-

Pepper High Income Fund received interest payments from related trusts in respect of issued notes held in that trust. The amounts received during the year for each trust are as follows:

Pepper Residential Securities Trust No. 9	32,300	-
Pepper Mortgage Warehouse Trust 2010-1	84,741	-
Pepper Prime Mortgage Warehouse Trust 2011-1	12,999	-
Pepper Prime 2012-1 Trust	5,784	-

Pepper Investment Management received management fees from related trusts. The amounts received during the year for each of the trusts are as follows:

Pepper High Income Fund	32,705	-

Pepper Australia Pty Limited received interest payments from controlled entity. The amounts received during the year was as follows:

Morgij Holdings Pty Limited	37,357	-

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $

23. Notes to the statement of cash flow

(a) Reconciliation of cash and cash equivalents

Cash at the end of the year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

Cash on hand - companies	18,681,606	17,215,749	18,121,364	17,158,477
Cash on hand - trusts	157,885,854	186,149,222	-	-
Cash and cash equivalents	176,567,460	203,364,971	18,121,364	17,158,477

Cash retained in the trusts is not available for the operations of the business except where subject to conditions contained in the funding agreements and trust documentation.

(b) Reconciliation of profit for the year to net cash flows from operating activities

Total comprehensive income for the year	24,551,819	14,895,310	24,517,436	15,527,207
Depreciation and amortisation expenses	1,158,460	564,619	1,125,992	564,619
Deferred tax asset movement	(628,518)	333,262	(404,195)	333,262
Deferred tax liability movement	2,168,470	915,066	2,168,470	915,066
Current tax liability movement	(1,827,679)	3,146,645	(1,905,961)	3,146,645
Share based payments	686,485	610,873	686,485	610,873
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase) / decrease in assets:				
Current receivables	(2,096,889)	(1,904,028)	(12,627,413)	(13,422,008)
Loans and advances	8,688,998	5,227,858	-	-
Other assets	(639,358)	(166,563)	(467,239)	(166,563)
Investments	2,137,715	588,337	2,137,715	1,043,256
Increase / (decrease) in liabilities:				
Current trade payables	(1,749,706)	3,482,889	(2,331,610)	1,684,600
Borrowings	(2,800,026)	11,415,102	43,394	-
Other creditors and accruals	3,531,385	9,040,256	8,886,616	(3,215,516)
Provisions	2,578,576	23,858	1,809,464	23,858
	35,759,732	48,173,484	23,639,154	7,045,299

24. Share based payments

(a) Employee share option plan

The Group has an ownership-based compensation scheme for executives and senior employees. Each employee share option converts into one A class share of Pepper Australia Pty Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The recipient may sell all shares to the Company.

The following share-based payment arrangements were in existence during the current reporting periods:

Option Series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Tranche 1 – January 2011 (1)	2,500	20/1/2011	20/1/2020	-	$87.64
Tranche 2 – January 2011 (2)	12,500	20/1/2011	20/1/2020	-	$41.90
Tranche 3 – January 2011 (3)	4,025	20/1/2011	20/1/2020	-	$52.66
Tranche 1 – January 2012 (4)	1,363	31/1/2012	20/1/2020	$293.73	$34.79
Tranche 2 –January 2012 (5)	1,362	31/1/2012	20/1/2020	$293.73	$83.83
Tranche 1 – August 2012 (6)	1,363	31/8/2012	20/1/2020	$719.48	$56.31
Tranche 2 – August 2012 (7)	1,362	31/8/2012	20/1/2020	$719.48	$145.20

(1) In accordance with the terms of the share-based arrangement, options issued in Tranche 1 – January 2011 vested immediately.

(2) In accordance with the terms of the share-based arrangement, options issued in Tranche 2 – January 2011 will vest 18 months after the Grant Date should a Return on Investment performance hurdle of 20% be achieved.

(3) In accordance with the terms of the share-based arrangement, options issued in Tranche 3 – January 2011 will vest 36 months after the Grant Date should a Return on Investment performance hurdle of 38% be achieved.

(4) In accordance with the terms of the share-based arrangement, options issued in Tranche 1 – January 2012 will vest 6 months after the Grant Date should a Return on Investment performance hurdle of 20% be achieved.

(5) In accordance with the terms of the share-based arrangement, options issued in Tranche 2 – January 2012 will vest 23 months after the Grant Date should a Return on Investment performance hurdle of 35% be achieved.

(6) In accordance with the terms of the share-based arrangement, options issued in Tranche 1 – August 2012 will vest 12 months after the Grant Date should a Return on Investment performance hurdle of 20% be achieved.

(7) In accordance with the terms of the share-based arrangement, options issued in Tranche 2 – August 2012 will vest 36 months after the Grant Date should a Return on Investment performance hurdle of 35% be achieved.

(b) Fair value of share options granted in the year

The weighted average fair value of the share options granted during the financial year is $103.91. Options were priced using a modified Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restriction (including the probability of meeting performance hurdle conditions attached to the option), and behavioural considerations. Expected volatility is based on the median historical share volatility of a selection of comparable companies over similar periods. It was assumed that executive and senior employees would exercise the options at the vesting date of the respective tranche.

24. Share based payments (continued)

	Tranche 1 31 January 2012	Tranche 2 31 January 2012	Tranche 1 31 August 2012	Tranche 2 31 August 2012
Grant date share price	$279.96	$279.96	$496.46	$496.46
Exercise price	$293.73	$293.73	$719.48	$719.48
Expected volatility	60.00%	60.00%	60.00%	60.00%
Option life	8 Years	8 Years	8 Years	8 Years
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	3.93%	3.16%	2.85%	2.47%

(c) *Movements in shares options during the year*

The following reconciles the share options outstanding at the beginning and end of the year.

	2012		2011	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Beginning of the year	14,525	-	-	-
Granted during the year	5,450	506.61	19,025	-
Exercised during the year	-	-	(4,500)	-
End of the year	19,975	138.22	14,525	-

(d) *Class B Share conversion*

As a component of the acquisition of the Pepper Property Group business, the Group has issued Class B Shares which will convert into Ordinary Shares on 30 April 2017, subject to an Internal Rate of Return hurdle.

25. Financial instruments, Financial risks and Capital risk management

Categories of financial instruments

	Consolidated		Company	
	Year ended 31 December 2012 $	Year ended 31 December 2011 $	Year ended 31 December 2012 $	Year ended 31 December 2011 $
Financial assets				
Cash and bank balances	176,567,460	203,364,971	18,121,364	17,158,477
Loans and advances	3,198,646,617	3,859,158,863	-	-
Receivables	12,344,744	15,045,523	48,160,115	35,711,228
Investments	9,631,352	9,761,584	72,561,524	58,359,178
	3,397,190,173	4,087,330,941	138,843,003	111,228,883
Financial liabilities				
Trade and other payables	3,567,200	6,372,252	2,062,680	4,394,288
Borrowings	3,273,491,662	3,983,572,735	14,683,470	17,607,202
	3,277,058,862	3,989,944,987	16,746,150	22,001,490

25. Financial instruments, Financial risks and Capital risk management (continued)

Financial risk management policies and objectives

The group's activities expose it to a variety of financial risks, primarily credit risk and liquidity risk. The group's risk management programme focuses on understanding the drivers of financial markets and seeks to minimise the potential adverse effects on the financial performance of the consolidated entity. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the board of directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed on a continuous basis.

(a) Capital risk management

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt, which includes borrowings disclosed in note 13, cash and cash equivalents and equity attributable to members of the parent entity, comprising of issued capital and retained earnings in note 17.

(b) Market risk

The group activities are not exposed to the market excluding interest rate risk.

(c) Interest rate risk

The company and the group are exposed to interest rate risk as some mortgage receivables are contracted at fixed interest rates. The group manages this risk through an interest rate swap. The group has no fixed rate borrowings as at the reporting date.

Interest rate sensitivity analysis

As any changes to the underlying interest rate affect both the group's interest income and borrowing costs equally, any increase or decrease would not result in a change in the group's profit and loss.

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis. The consolidated entity's exposure and credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The consolidated entity does not have any significant credit risk exposure to any single counterparty and/or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for impairment, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

The consolidated entity's exposure to mortgage loans is limited, as they are legally owned by the special purpose entities with no recourse to the group. Losses on mortgage loans are therefore limited to the consolidated entity's investments in notes in these trusts and the cash collateral retained in the trust.

25. Financial instruments, Financial risks and Capital risk management (continued)

(e) *Liquidity risk management*

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows.

The Group also incorporates three Prime and one Specialist warehouse facility, established as part of the GE portfolio acquisition. The maturity dates of these facilities are either 24 or 36 months from date of acquisition. It is expected that the GE related warehouse facilities will be refinanced at maturity via securitisation transactions.

The group maintain regular dialogue and reporting to banking facility providers to ensure continuance of funding.

(f) *Fair value of financial instruments*

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Management considers that the carrying amount of financial assets and financials liabilities recorded at amortised cost in the financial statements approximates fair value.

26. Business combinations

Subsidiaries acquired	**Principal Activity**	**Date of Acquisition**	**Proportion of Shares Acquired**	**Consideration Transferred $**
2012				
Pepper Property Group Pty Limited	Property Advisory	3 July, 2012	100%	7,703,041
				7,703,041

Consideration transferred	Pepper Property Group Pty Ltd
Cash	3,750,000
Deferred consideration	2,409,356
Contingent consideration arrangement (i)	1,543,685
Total	7,703,041

(i) Under the contingent consideration arrangement, the Group is required to pay the vendors an additional $1,543,685 of the Pepper Property Group Pty Limited's group profit after tax delivers an IRR of 15% when measured over the period from acquisition to 3 July 2016. The directors consider it probable that this payment will be required. $1,543,685 represents the estimated fair value of this obligation at the acquisition date.

26. Business combinations (continued)

	Pepper Property Group Pty Ltd
Assets acquired and liabilities assumed at the date of acquisition	
Cash and cash equivalents	530,908
Trade and other receivables	1,324,400
Investments	111
Non-current assets	
Plant and equipment	11,173
Current liabilities	
Trade and other payables	(1,322,477)
Non-current liabilities	
Deferred tax liabilities	20,838
Employee provisions	(564,953)
	-
Goodwill arising on acquisition	
Consideration transferred	7,703,041
Less: fair value of identifiable assets acquired	-
Goodwill arising on acquisition	7,703,041

27. Significant events

On May 21, 2012, the Group completed the acquisition of certain rights associated with an approximate $150 million auto and equipment finance portfolio from Suncorp's Non-Core bank.

As a result of this acquisition, the Pepper Auto and Equipment Finance Trust 2012-1was created and for which Pepper Australia Pty Limited is the Servicer, Trust Manager and Residual Unit Holder.

Additionally, Pepper Australia Pty Limited holds interests in various note classes issued by that trust. As a result of the level of holding in the Australian Trusts the company has consolidated the accounts of those trusts in this set of accounts (see Note 20).

On July 3, 2012, Pepper reached agreement with Grant Samuel Holdings Limited to acquire its real estate advisory business, Grant Samuel Property. Following completion of the sale, the company was renamed Pepper Property Group Pty Limited (trading as "Pepper Property").

Pepper Property is a leading real estate investment and advisory group that delivers independent, high quality strategic advice to the corporate real estate sector, tenant representation services, capital structuring, divestments and acquisitions, and investment management services.

28. Subsequent events

On 21 March, 2013, it was agreed by the respective boards of Pepper Australia Pty Limited and Pepper Europe Holdings Pty Ltd, a related but not consolidated group of companies, to initiate a corporate restructure such that Pepper Australia Pty Limited would acquire Pepper Europe Holdings Pty Limited and its subsidiaries.

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

29. Additional company information

Pepper Australia Pty Limited is a private company, incorporated and operating in Australia.

Registered office
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