Interim Results Announcement
30 June 2015

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Directors' report

The Directors of Pepper Group Limited (the Company) submit the interim report on the Company together with its controlled entities (collectively referred to as the Group or Pepper) for the half year ended 30 June 2015.

Directors

The names of the directors of the Group during and since the end of the half year were:

Seumas Dawes (Chairman and Non-Executive Director)
Des O'Shea (Independent Non-Executive Director)
Melanie Willis (Independent Non-Executive Director)
Matthew Burlage (Independent Non-Executive Director)
Michael Culhane (Co-Group Chief Executive Officer and Director)
Patrick Tuttle (Co-Group Chief Executive Officer and Director)
Cameron Small (Group Chief Financial Officer and Director) – resigned on 4 June 2015
David Holmes (Alternate director to Patrick Tuttle) – resigned on 4 June 2015

Operating and financial review

Principal activities and review of operations

Pepper is a specialist residential mortgage and consumer lender and loan servicer, operating in targeted market segments and asset classes in Australia and internationally, many of which are underserviced by traditional bank and other prime lenders.

Pepper has become a specialist lending and loan servicing group through a combination of organic growth and targeted acquisitions across Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, and Hong Kong and China through its acquisition of a 12% equity interest in Prime Credit Holdings Ltd (Prime Credit) which occurred in the half year.

Pepper offers a broad range of lending products across residential mortgages, auto and equipment finance, point of sale finance and personal loans, underpinned by a comprehensive risk based pricing methodology. Pepper also provides loan servicing for its own originated loans as well as for third party originated loans, including residential mortgages, consumer unsecured and secured loans and commercial real estate backed loans.

Through Pepper Property Group, Pepper is also an independent real estate investment and advisory group in Australia that provides integrated property and capital solutions for corporations, investors and developers.

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

Central to the success of its business model is Pepper's ability to combine its consumer credit and risk-based loan underwriting expertise with its specialist loan servicing and collections management capabilities, tailored for a range of targeted asset classes – principally residential mortgages, auto loans, equipment finance, small balance commercial mortgages, small and medium-sized enterprises loans, and personal loans.

Pepper's operating model incorporates credit risk-based underwriting expertise with specialist servicing capabilities supported by:

- **Product manufacturing:** Deep manufacturing expertise in residential mortgage loans gives Pepper flexibility in providing a range of products with attractive risk-return profiles in Australia. Internationally, Pepper's management team has experience in specialist lending in the United Kingdom and consumer finance lending in Spain. The Management teams in Asia are deeply experienced in consumer finance lending. Pepper is able to apply its detailed knowledge of borrowers to develop new products that address unmet demand;
- **Distribution:** Pepper distributes loans in Australia through its relationships with approximately 8,000 accredited brokers and approximately 15 key White-Label partners. Strong, long-term relationships with global loan portfolio acquirers help Pepper win and maintain servicing contracts across multiple jurisdictions;
- **Treasury and funding expertise:** Pepper has strong long-term relationships with funding partners and is a trusted issuer in the Term Securitisation markets;
- **Risk management:** Pepper operates with a holistic risk management and governance framework; and
- **Collections management:** Pepper's specialised collections processes are based on its analytical capabilities and a careful approach to customer management.

Funding

In each of its lending markets, Pepper maintains access to a diversified funding platform supported by established funding relationships and a Board approved funding policy. Pepper's funding is split between corporate funding and asset funding of Pepper's lending activities to customers.

- Corporate Debt Facilities: Utilised for working capital and business operations.
- Warehouse Facilities: Third-party funders provide limited-recourse financing to special purpose vehicles established by Pepper to originate or acquire loans to Pepper's customers.
- Term Securitisations: Loans that are initially funded via a Warehouse Facility can be pooled together and refinanced by being sold to a new Funding Vehicle that issues limited-recourse asset-backed securities to public market investors.
- Whole Loan Sales: Pepper is able to create additional liquidity by selling specific pools of loans to release capital.
- South Korea deposits: Pepper's lending business in South Korea is conducted by a deposit-taking institution that funds its lending in South Korea with deposits and capital invested from Australia.

Business strategies

Pepper is focused on a number of growth strategies to continue to drive income and profitability over coming years:

1. Organic lending growth

Australia and New Zealand (ANZ) Division[1]: Pepper is well-positioned to achieve strong volume growth driven by:
- expected underlying market growth in the non-conforming (including near-prime) and prime segments of the residential mortgages market.
- investments in brand positioning and a new direct distribution channel, Pepper Direct.
- new product development initiatives such as Pepper Asset Finance.

International Division[1]: Pepper expects growth driven by new lending in the United Kingdom and Spain, in addition to continued strong growth in South Korea. The recent acquisition of 12% of Prime Credit is expected to generate income growth in Hong Kong and China.

2. Organic servicing growth

- Volume increases in Pepper originated loans is expected to support growth in Pepper's servicing revenue;
- Servicing assets under management is expected to be driven by recently awarded third-party contracts; and
- Pepper has identified a large pipeline of potential new third-party servicing opportunities across Europe.

3. Acquisitive growth

- Management has a demonstrated track-record in identifying and executing acquisitions in targeted markets that are consistent with Pepper's strategy, deliver value outcomes and create platforms that can be used for future growth; and
- Pepper expects that it will be able to capitalise on certain opportunities globally stemming from regulatory change and capital markets volatility and is focused on executing these opportunities in a disciplined and structured manner through the use of a dedicated internal mergers and acquisitions team.

Rounding

The amounts contained in this Financial Report and the Financial Statements are presented in Australian dollars and rounded to the nearest thousand dollars unless otherwise stated, under the option available under ASIC Class Order 98/100.

Half year ended 30 June 2015 operating results

The Group recorded a statutory profit before tax for the half year to 30 June 2015 of $6.699m, a decrease of 18% year on year (2014: $8.176m). The Group has recorded growth in assets under management of 28% underpinning its core profitability. The performance remains in line with forecast, however reflects the ongoing investment into consumer lending in Australia, Spain and Korea and into mortgage lending in the UK. Additionally, for the period ended 30 June 2015, the Group recognised share based payment expenses of $4m, not previously incurred. For year-end reporting purposes this expense will be disclosed as part of a broader pro forma adjustment in connection with the Group's recent listing on the Australian Securities Exchange (see note 1 on page 12 for more detail).

Total comprehensive income for the year increased 144% year on year to $3.337m (2014: $1.369m) reflecting currency translation differences.

Note

1 – Refer to note 9 on page 17 for the definitions of Pepper's business segments.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 24.

Indemnification of officers and auditors

During the period, the Group paid a premium in respect of a contract insuring the directors of the Group 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 Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group against a liability incurred as such an officer or auditor.

This directors' report is signed in accordance with a resolution of the directors made pursuant to s.306 (3) of the Corporations Act 2001.

On behalf of the Directors

Seumas Dawes
Chairman and
Non-Executive Director
Sydney, 25 August, 2015

Patrick Tuttle
Co-Group Chief Executive Officer and
Director
Sydney, 25 August, 2015

Condensed consolidated financial statements
Condensed consolidated income statement

	Note	Half year ended 30 June 2015 $'000	Half year ended 30 June 2014 $'000
Interest revenue		**143,486**	133,393
Fee revenue		**76,075**	50,053
Other revenue		**5,767**	2,331
Total revenue		**225,328**	185,777
Employee benefits expenses		**(78,596)**	(51,524)
Depreciation and amortisation expenses		**(3,966)**	(2,166)
Borrowing costs		**(96,421)**	(89,879)
Loan loss expenses		**(8,837)**	(5,410)
Other expenses from operations		**(31,095)**	(28,622)
Total expenses		**(218,915)**	(177,601)
Profit from share of results of associates		**286**	-
Profit before tax		**6,699**	8,176
Income tax expenses		**(2,949)**	(2,708)
Profit after tax		**3,750**	5,468
Profit for the year attributable to:			
Owners of the company		**3,804**	5,568
Non-controlling interests		**(54)**	(100)
		3,750	5,468
Earnings per share	**Note**	**Cents**	**Cents**
Basic	2	**17**	27
Diluted	2	**17**	26

Notes to the condensed consolidated financial statements are found on pages 12 to 22.

Condensed consolidated financial statements
Condensed consolidated statement of comprehensive income

	Notes	Half year ended 30 June 2015 $'000	Half year ended 30 June 2014 $'000
Profit after tax		**3,750**	5,468
Other comprehensive income / (expense) that may be recycled to profit or loss:			
Currency translation reserve movements	6	**(191)**	(4,155)
Cash flow hedging reserve movements	6	**(253)**	-
Available for sale reserve movements	6	**(5)**	11
Total other comprehensive loss that may be recycled to profit or loss		**(449)**	(4,144)
Other comprehensive income not recycled to profit or loss:			
Retirement benefit remeasurements		**36**	45
Other comprehensive loss for the period		**(413)**	(4,099)
Total comprehensive income for the period		**3,337**	1,369
Total comprehensive income / (expense) attributable to:			
Owners of the company		**3,391**	1,469
Non-controlling interests		**(54)**	(100)
		3,337	1,369

Notes to the condensed consolidated financial statements are found on pages 12 to 22.

Condensed consolidated financial statements
Condensed consolidated balance sheet

	Notes	As at 30 June 2015 $'000	As at 31 December 2014 $'000
Assets			
Cash and cash equivalents		**364,941**	462,445
Investment securities		**71,341**	70,897
Derivative financial assets		**45,353**	59,805
Receivables		**72,135**	164,000
Other assets		**13,494**	8,737
Loans and advances	3	**4,529,836**	3,963,660
Deferred tax assets		**8,892**	7,128
Other investments		**42,798**	55,136
Investment in associates	10	**81,044**	-
Property, plant and equipment		**11,076**	9,093
Intangible assets		**47,248**	42,987
Goodwill		**25,078**	23,821
Total assets		**5,313,236**	4,867,709
Liabilities			
Deposits		**496,403**	332,348
Trade and other payables		**42,947**	30,882
Current tax liabilities		**4,916**	7,125
Borrowings	4	**4,442,771**	4,182,050
Other liabilities		**65,380**	45,737
Provisions		**15,759**	19,771
Deferred tax liabilities		**2,353**	2,289
Total liabilities		**5,070,529**	4,620,202
Net assets		**242,707**	247,507
Equity			
Issued capital	5	**134,384**	143,517
Other equity	6	**(16,364)**	(19,297)
Other reserves	6	**6,669**	7,118
Retained earnings		**118,779**	116,876
Total equity attributable to the owners of the company		**243,468**	248,214
Non-controlling interests		**(761)**	(707)
Total equity		**242,707**	247,507
Net assets per share (dollars)		**1,068**	1,182
Net tangible assets per share (dollars)		**751**	864

Notes to the condensed consolidated financial statements are found on pages 12 to 22.

Condensed consolidated financial statements
Condensed consolidated statement of changes in equity

	Issued capital $'000	Other equity[1] $'000	Other reserves[1] $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total equity $'000
Balance at 31 December 2013	**102,107**	**(17,410)**	**5,018**	**82,456**	**172,171**	**(602)**	**171,569**
Profit for the period	-	-	-	5,568	5,568	(100)	5,468
Available for sale investments	-	-	11	-	11	-	11
Currency translation movements	-	-	(4,155)	-	(4,155)	-	(4,155)
Cashflow hedge movements	-	-	-	-	-	-	-
Retirement benefit remeasurements	-	45	-	-	45	-	45
Total comprehensive income for the period	-	45	(4,144)	5,568	1,469	(100)	1,369
Contributions of equity	2,397	(938)	-	-	1,459	-	1,459
Dividend paid	-	-	-	(1,901)	(1,901)	-	(1,901)
Recognition of share based payments	-	569	-	-	569	-	569
Other movements	-	-	-	-	-	-	-
Balance at 30 June 2014	**104,504**	**(17,734)**	**874**	**86,123**	**173,767**	**(702)**	**173,065**
Profit for the period	-	-	-	32,535	32,535	(5)	32,530
Available for sale investments	-	-	(56)	-	(56)	-	(56)
Currency translation movements	-	-	6,729	-	6,729	-	6,729
Cashflow hedge movements	-	-	(429)	-	(429)	-	(429)
Retirement benefit remeasurements	-	(9)	-	-	(9)	-	(9)
Total comprehensive income for the period	-	(9)	6,244	32,535	38,770	(5)	38,765
Contributions of equity	39,013	(1,602)	-	-	37,411	-	37,411
Dividend paid	-	-	-	-	-	-	-
Recognition of share based payments	-	48	-	-	48	-	48
Other movements	-	-	-	(1,782)	(1,782)	-	(1,782)
Balance at 31 December 2014	**143,517**	**(19,297)**	**7,118**	**116,876**	**248,214**	**(707)**	**247,507**
Profit for the period	**-**	**-**	**-**	**3,804**	**3,804**	**(54)**	**3,750**
Available for sale investments	**-**	**-**	**(5)**	**-**	**(5)**	**-**	**(5)**
Currency translation movements	**-**	**-**	**(191)**	**-**	**(191)**	**-**	**(191)**
Cashflow hedge movements	**-**	**-**	**(253)**	**-**	**(253)**	**-**	**(253)**
Retirement benefit remeasurements	**-**	**36**	**-**	**-**	**36**	**-**	**36**
Total comprehensive income for the period	**-**	**36**	**(449)**	**3,804**	**3,391**	**(54)**	**3,337**
Contributions of equity	**27,012**	**(1,959)**	**-**	**-**	**25,053**	**-**	**25,053**
Redemptions of equity	**(36,145)**	**-**	**-**	**-**	**(36,145)**	**-**	**(36,145)**
Dividend paid	**-**	**-**	**-**	**(1,901)**	**(1,901)**	**-**	**(1,901)**
Recognition of share based payments	**-**	**4,856**	**-**	**-**	**4,856**	**-**	**4,856**
Other movements	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2015	**134,384**	**(16,364)**	**6,669**	**118,779**	**243,468**	**(761)**	**242,707**

Notes to the condensed consolidated financial statements are found on pages 12 to 22.

Note

1 – Details of other equity and other reserves are shown in note 6 on page 15.

Consolidated statement of cash flows

	Half year ended 30 June 2015 $'000	Half year ended 30 June 2014 $'000
Cash flows from operating activities		
Fee revenue / receipts from customers	**115,151**	77,783
Payments to suppliers and employees	**(148,288)**	(96,186)
Interest received	**171,941**	156,450
Interest and other costs of finance paid	**(110,861)**	(123,298)
Income taxes paid	**(6,105)**	(4,488)
Net cash from operating activities	**21,838**	10,261
Cash flows from investing activities		
Payments for property, plant and equipment	**(4,866)**	(4,265)
Payments for intangibles	**(1,159)**	(1,273)
Investment in equity	**(80,727)**	(3,221)
Amounts (advanced to) / received from related parties	**(3,590)**	2,599
Payments for arrangement fees	**(3,821)**	(2,401)
Repayment of notes	**(6,646)**	(3,611)
Net repayment for investment in debt securities	**74**	75,775
Loan collections	**540,239**	462,565
Broker assumption fee paid	**(1,232)**	(2,756)
Loans advanced	**(1,097,171)**	(614,121)
Net cash from deconsolidation of subsidiaries	**(1,661)**	-
Net cash from sale of loan portfolios	**99,998**	-
Net cash from investing activities	**(560,562)**	(90,709)
Cash flows from financing activities		
Net proceeds from issuance of capital	**24,133**	2,183
Redemption of preference shares	**(36,145)**	-
Proceeds from borrowings	**1,911,110**	1,639,053
Repayment of borrowings	**(1,455,977)**	(1,560,560)
Dividend paid	**(1,901)**	(1,901)
Net cash from financing activities	**441,220**	78,775
Net decrease in cash and cash equivalents	**(97,504)**	(1,673)
Cash and cash equivalents at the beginning of the financial period	**462,445**	396,825
Cash and cash equivalents at the end of the financial period	**364,941**	395,152

Notes to the condensed consolidated financial statements are found on pages 12 to 22.

Note 1 - Significant accounting policies

General information

The Financial Statements of Pepper Group limited (the Company) and its controlled entities (the Group) for the half year ended 30 June 2015, were approved and authorised for issue by the Board of Directors on 25 August 2015. The Directors have the power to amend and reissue the Financial Statements.

The Group embarked on an initial public offering ("IPO") and listed on the Australian Securities Exchange ("ASX") on 31 July 2015. The ASX ticker code is PEP (refer to note 13 on page 22 for more detail). The Company is incorporated and domiciled in Australia and from 31 July it is a company limited by shares that are publicly traded on the ASX. The address of its registered office is Level 9, 146 Arthur Street, North Sydney, NSW 2060, Australia.

There have been no significant changes in the nature of the principal activities of the Group during the half year ended 30 June 2015.

Basis of preparation

For the year ended 31 December 2014, the Group prepared financial statements in accordance with the Corporations Act 2001 and Australian Accounting Standards – Reduced Disclosure Requirements. This interim financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

As the Company previously issued general purpose financial statements (for the year ended 31 December 2009), resuming the application of general purpose financial reporting requirements results in full application of Australian Accounting Standards (AAS). No recognition, classification or measurement adjustments have been noted as a result of resuming the application of AAS.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. As a result, these financial statements should be read in conjunction with the 31 December 2014 Annual Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The amounts contained in this financial report and the financial statements are presented in Australian dollars (the Group's functional currency) and rounded to the nearest thousand dollars unless otherwise stated, under the option available under ASIC Class Order 98/100.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the annual report for the year ended 31 December 2014 available at: www.asx.com.au.

Accounting estimates and judgements

The preparation of this report requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Areas where assumptions are significant and based on best estimates to the Group include:

- fair value of financial assets, liabilities, and employee share options;
- business valuation techniques and determination of impairment losses; and
- cost capitalisation and evaluating the useful lives of intangible assets.

During the six months ended 30 June 2015, the Group recorded the deconsolidation of two subsidiaries: Pepper High Income Fund and Pepper Investment Grade Credit Fund. These subsidiaries are not considered material to the Group and neither has been disclosed as a disposal of a subsidiary.

Future accounting developments

AASB 9 'Financial Instruments' contains revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. AASB 9 is effective for annual periods beginning on or after 1 January 2018. The Group does not intend to early adopt the standard. Given the nature of the Group's operations, the application of this standard is expected to have a pervasive impact on the Group's financial statements. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

Note 1 - Significant accounting policies (continued)

Future accounting developments (continued)

AASB 15 'Revenue from Contracts with Customers' contains new requirements for the recognition of revenue. The standard will also include additional disclosures about revenue. AASB 15 is effective for annual periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

There have been no other new or amended accounting standards during the reporting period ended 30 June 2015 that have had or may have a significant impact on the financial results of the Group.

Note 2 – Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise the share options granted to employees.

	Half year ended 30 June 2015 $'000	Half year ended 30 June 2014 $'000
Profit for the period attributable to ordinary shareholders	**3,804**	5,568
Weighted average number of ordinary shares[1] (thousand):		
Issued ordinary shares at the start of the period	**210**	207
Effect of allotment and issuances	**18**	3
Issued ordinary shares at the end of the period	**228**	210
Weighted average number of shares (basic)	**219**	209
Effect of share options in issue	**17**	7
Weighted average number of shares (diluted)	**228**	212
	cents	cents
Basic earnings per share	**17**	27
Diluted earnings per share	**17**	26

Note 3 – Loans and advances

	As at 30 June 2015 $'000	As at 31 December 2014 $'000
Loans and advances from securitised trusts	**2,537,352**	2,161,624
Loans and advances from funding warehouses	**1,407,297**	1,622,794
Other loans and advances	**585,187**	179,242
Total loans and advances	**4,529,836**	3,963,660
Impairment provisions (included in the balances above)	**15,907**	11,758

Note

1 – For the purposes of calculating earnings per share, ordinary shares include: fully paid ordinary shares, fully paid A class shares and B class shares and exclude treasury shares.

Note 4 – Borrowings

	As at 30 June 2015 $'000	As at 31 December 2014 $'000
Securitised funding facility	**2,675,218**	2,288,292
Warehouse facility - secured	**1,562,681**	1,785,952
Subordinated debt	**123,000**	98,085
Loan facility - secured	**81,872**	9,721
Total borrowings	**4,442,771**	4,182,050

Securitised funding facilities are secured only on the assets of each of the individual securitisation trusts. Warehouse facilities are fully secured by the loans and advances and other cash collateral residing in the warehouse trusts, the current value of which is less than the value of the mortgage assets. Subordinated debt facilities are secured over certain assets of the Group.

During the six months ended 30 June 2015, $901m of new securitised funding facilities were obtained and $132m of existing securitised funding facilities was repaid in full. All other movements pertain to facilities that were in place at 31 December 2014.

Note 5 – Issued Capital

	30 June 2015		31 December 2014	
As at	Number of shares '000	$'000	Number of shares '000	$'000
Fully paid ordinary shares	**196**	**129,302**	182	104,477
Fully paid A class shares	**35**	**5,082**	27	2,895
B class shares	**5**	**-**	5	-
G class redeemable convertible preference shares	**-**	**-**	21	36,145
	236	**134,384**	235	143,517

During the half-year, the company issued 14,177 fully paid ordinary shares for $24.825m and redeemed 20,642 G class redeemable convertible preference shares for $36.145m. The company also issued 7,095 fully paid A class shares for $2.187m for share options exercised under its employee share option plan. As a result of this share issue, $0.228m was transferred from the equity-settled employee benefits reserve to issued capital and $1.959m of treasury shares recorded.

During February 2015 a $1.901m dividend was paid to class A shareholders (2014: $1.901m) amounting to $69 per share (2014: $69 per share).

Note 6 – Other equity and other reserves

	As at 30 June 2015 $'000	As at 31 December 2014 $'000	Year to date movement $000
Employee benefits reserve	**6,982**	2,090	4,892
Business combinations under common control reserve	**(18,653)**	(18,653)	-
Treasury shares	**(4,693)**	(2,734)	(1,959)
Total other equity	**(16,364)**	(19,297)	2,933
Currency translation reserve	**7,356**	7,547	(191)
Available for sale reserve	**(5)**	-	(5)
Cashflow hedging reserve	**(682)**	(429)	(253)
Total other reserves	**6,669**	7,118	(449)

Note 7 – Guarantees, contingent liabilities and contingent assets

At 30 June 2015 the Group has $2.132m of guarantees in place covering tenant obligations under office leases in Australia, Spain, Ireland, and the United Kingdom (31 December 2014: $1.500m). In addition, the Company has provided $25m in financial guarantees over funding received by entities within the Group (31 December 2014: $nil).

The Group does not have any contingent assets or contingent liabilities.

Note 8 – Fair value of financial assets and liabilities

The table below shows a comparison of the carrying amounts, as reported on the balance sheet, and the fair values of those financial assets and liabilities that are measured at amortised cost where the carrying value recorded in the balance sheet does not approximate to fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available at the reporting date and involve judgement.

The Group has considered all financial assets and liabilities. For all floating-rate loans, receivables, deposits, and borrowings and fixed-rate loans with a initial maturity less than or equal to one year, fair value is taken to be the same as carrying value net of impairment, assuming there has been no significant change in credit spreads on the counterparties in question since they were recognised in the balance sheet.

The following table represents those where the carrying value recorded in the balance sheet does not approximate to fair value.

	As at 30 June 2015 $'000		As at 31 December 2014 $'000	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Other investments	**42,798**	**43,040**	55,136	55,508

Fair value measurements and valuation processes

The following assets and liabilities are measured at fair value by the Group for financial reporting purposes.

Financial instruments	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2015 $000	31 December 2014 $000		
Interest rate derivatives	(896)	(867)	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, approriate discount rates.
Foreign currency derivatives	43,620	59,805	Level 2	Discounted cash flow. Forward exchange rates, contract forward rates, approriate discount rates.

In the six months to 30 June 2015 there has been no change in the fair value hierarchy or the valuation techniques applied to interest rate or foreign exchange derivatives.

Note 9 – Segmental reporting

In accordance with AASB 8 Operating Segments, the Group reports financial information by three operating segments, namely the ANZ Division, International Division and Corporate Division. The operating segments are described below.

- The **ANZ Division** includes the revenues and direct expenses associated with the loan origination, servicing and other operations conducted by Pepper in Australia and New Zealand. This comprises residential prime and non-conforming mortgage lending, auto and equipment finance lending, servicing of Pepper-controlled limited-recourse funding vehicles and third-party funding vehicles, property advisory services and investment management services for third party funds. The ANZ Division also recognises income generated under a services agreement with Prime Credit under which Pepper provides certain strategic and treasury-related advisory services, and also oversight of certain operational functions and transitional arrangements.
- The **International Division** includes the revenues and direct expenses associated with lending and servicing operations conducted by Pepper outside Australia and New Zealand. Pepper presently derives revenue and profits in Ireland, the United Kingdom, Spain, South Korea, Hong Kong and China. The products and services offered currently include residential mortgage loans, point-of-sale finance and personal loans and the servicing and management of Pepper-controlled and third-party funding vehicles. Profits from Pepper's 12.0% equity interest in Prime Credit are reported as a share of associate profit or loss within the International Division.
- The **Corporate Division** represents group executives (central executive and the principal investments team) and costs and group support functions not specifically aligned to business operations in the ANZ Division or International Division (e.g. Finance, Treasury, Risk, HR, Legal and IT). Interest costs associated with Pepper's corporate debt facilities are also presented as part of the Corporate Division together with realised foreign exchange gains or losses.

Half year ended 30 June 2015	**ANZ $'000**	**International $'000**	**Corporate $'000**	**Total $'000**
Revenue				
Interest revenue external to the Group	127,803	15,683	-	143,486
Intersegment interest	790	(790)	-	-
Fee and other revenue	19,407	62,435	-	81,842
Expenses				
Depreciation and amortisation	(1,322)	(2,644)	-	(3,966)
Borrowings costs	(90,329)	(6,092)	-	(96,421)
Other operating expenses	(32,214)	(65,805)	(20,509)	(118,528)
Other net income				
Equity profits from associates	-	286	-	286
Profit before taxation	**24,135**	**3,073**	**(20,509)**	**6,699**
Taxation	(8,063)	(661)	5,775	(2,949)
Profit after tax	**16,072**	**2,412**	**(14,734)**	**3,750**
As at 30 June 2015				
Total assets	4,569,978	743,258	-	5,313,236
Total liabilities	4,398,705	657,090	14,734	5,070,529
Investment in asociates	1,173	79,871	-	81,044

Half year ended 30 June 2014				
Revenue				
Interest revenue external to the Group	122,017	11,376	-	133,393
Intersegment interest	349	(349)	-	-
Fee and other revenue	11,005	41,379	-	52,384
Expenses				
Depreciation and amortisation	(1,014)	(1,152)	-	(2,166)
Borrowings costs	(83,791)	(6,088)	-	(89,879)
Other operating expenses	(32,094)	(43,506)	(9,956)	(85,556)
Other net income				
Equity profits from associates	-	-	-	-
Profit before taxation	**16,472**	**1,660**	**(9,956)**	**8,176**
Taxation	(5,665)	(447)	3,404	(2,708)
Profit after tax	**10,807**	**1,213**	**(6,552)**	**5,468**
As at 31 December 2014				
Total assets	4,542,979	324,730	-	4,867,709
Total liabilities	4,297,450	316,200	6,552	4,620,202
Investment in asociates	-	-	-	-

Note 10 – Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are included in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated balance sheet at cost. The investment in associate is adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

On 6 May 2015, the Group acquired a 12% interest in Prime Credit, a consumer finance business in Hong Kong and China from Standard Chartered Bank for a consideration of $79.871m. This investment has been classified as an investment in an associate due to the Group’s involvement in the financial and operating policy decisions of Prime Credit. Other investments in associates make up the remaining $1.173m.

Note 11 – Related party transactions

Related party transactions in the period ended 30 June 2015 were similar in nature to those disclosed in the Group’s 2014 Annual Report. No related party transactions that have taken place in 2015 have materially affected the financial position or the performance of the Group during this period. There were no changes in the related parties transactions described in the 2014 Annual Report that could have a material effect on the financial position or performance of the Group in the current financial year.

Note 12 – Financial risk management

Overview

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit & Risk Committee, which is responsible for overseeing a number of risk areas across the Group, including: the Company's relationship with internal and external auditors; the preparation of the financial statements and reports; and the process of identification and management of risks (including financial controls and systems). The Audit & Risk Committee reports to the Board on its activities.

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including interest rate risk and foreign currency risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Credit risk

Credit risk is the possibility of a loss occurring due to the financial failure of the Group's debtors or invested assets, or that a perceived likelihood of default will lower their commercial value.

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

Maximum exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's net exposure to credit risk at the reporting date was:

	30 June 2015 $000	31 December 2014 $000
Cash and cash equivalents	**364,941**	462,445
Investment securities	**71,341**	70,897
Derivative financial assets	**45,353**	59,805
Receivables and other assets	**85,629**	172,737
Investment in associates	**81,044**	-
Other investments	**42,798**	55,136
Financial assets other than loans and advances	**691,106**	821,020
Gross loans and advances at amortised cost	**4,545,743**	3,975,418
Total potential exposure to credit risk	**5,236,849**	4,796,438

In addition to the balances in the table above, the Group had $416m of undrawn customer facilities as at 30 June 2015 (31 December 2014: $440m).

Distribution of loans and advances by credit quality

	30 June 2015 $000	31 December 2014 $000
Neither past due or impaired		
Gross loans and advances at amortised cost	**4,339,404**	3,773,910
Past due but not impaired		
Gross loans and advances at amortised cost	**183,820**	171,945
Impaired		
Gross loans and advances at amortised cost	**22,519**	29,563
	4,545,743	3,975,418

Over 88% of the Group's cash and cash equivalents are held with banks or financial institutions with a credit rating of AA- or better.

Note 12 – Financial risk management (continued)

The majority of the Group's exposure to loans and advances 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 Group's investments in notes in these trusts and the cash collateral retained in the trust. The trusts structures are designed such that losses are covered by excess spread generated from the assets within the trusts before the investment in notes is impacted.

In addition to the above, Pepper South Korea’s loan originations are funded on-balance sheet primarily through retail customer deposits. There is a limited market for securitisation and warehouse funding in South Korea unlike in Pepper’s other core markets and the Group retains the associated credit risk with lending in South Korea.

Geographical concentration and distribution of credit risk for loans and advances at amortised cost

	30 June 2015 $000	31 December 2014 $000
Neither past due or impaired		
Australia	**3,873,695**	3,605,580
International	**465,709**	168,330
Past due but not impaired		
Australia	**182,617**	171,437
International	**1,203**	508
Impaired		
Australia	**11,403**	7,453
International	**11,116**	22,110
	4,545,743	3,975,418

Loans and advances past due but not impaired

	30 June 2015 $000	31 December 2014 $000
Less than 30 days	**6,874**	1,751
31 to 90 days	**80,593**	88,467
More than 90 days	**96,353**	81,727
	183,820	171,945

Note 12 – Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Pepper's funding platform currently comprises a mix of Warehouse Facilities, Term Securitisations, an unsecured debt facility (maturing in December 2017), balance sheet cash and, in the case of Pepper Savings Bank Co. Limited, customer deposits.

The majority of the Group's liabilities represent bonds issued by special purpose trusts through warehouse facilities and term securitisation transactions. Under such arrangements, bondholder recourse is limited to the assets of the relevant special purpose trust to which the liability relates and the repayment profile of the bonds is matched to the repayments collected from the loan assets. Given the limited recourse nature of these borrowings ($3.896m at 30 June 2015 and $3.672m at 31 December 2014), they have not been included in the table below.

The Group seeks to have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has cultivated valuable long term relationships with a range of domestic and global investment banks and professional mezzanine debt and fixed income investors.

As at 30 June 2015	Carrying amount $000	At call $000	3 mths or less $000	3 to 12 mths $000	1 to 5 years $000	Over 5 years $000	Total contractual cash flows[1] $000
Financial liabilities							
Deposits	**496,403**	**5,031**	**42,336**	**332,261**	**121,739**	**-**	**501,367**
Payables and other liabilities	**108,327**	**-**	**110,494**	**-**	**-**	**-**	**110,494**
Borrowings	**546,200**	**-**	**5,921**	**265,063**	**316,089**	**-**	**587,073**
Derivative liabilities	**2,561**	**-**	**-**	**1,933**	**547**	**81**	**2,561**
Total	**1,153,491**	**5,031**	**158,751**	**599,257**	**438,375**	**81**	**1,201,495**

As at 31 December 2014	Carrying amount $000	At call $000	3 mths or less $000	3 to 12 mths $000	1 to 5 years $000	Over 5 years $000	Total contractual cash flows[1] $000
Financial liabilities							
Deposits	**332,348**	**3,368**	**28,345**	**222,453**	**81,506**	**-**	**335,672**
Payables and other liabilities	**76,619**	**-**	**78,151**	**-**	**-**	**-**	**78,151**
Borrowings	**509,959**	**-**	**5,525**	**295,819**	**253,864**	**-**	**555,208**
Derivative liabilities	**867**	**-**	**-**	**654**	**213**	**-**	**867**
Total	**919,793**	**3,368**	**112,021**	**518,926**	**335,583**	**-**	**969,898**

Note

1 – Contractual cash flows include interest payable

Note 12 – Financial risk management (continued)

Market risk

Market risk is the risk of an adverse impact on the Group's earnings resulting from changes in market factors, such as interest rates and foreign exchange rates.

(i) Interest rate risk

Interest rate risk is the risk that the Group will experience deterioration in its financial position as interest rates move over time.

Interest rate exposure is created due to repricing and creating mismatches in interest rates between assets and liabilities (i.e. borrowing at floating interest rates and lending with fixed interest rates). Interest rate risk may be managed by entering into interest rate swaps subject to the Group's hedging and derivatives policies.

The Group has calculated the impact of a potential increase/decrease in borrowing costs for the first half of the year in the event of a +/- 10bps change in interest rates to be +/- $1.784m (six months ending 30 June 2014: $1.442m). This impact would be offset by a corresponding +/- impact on interest revenue proportionate to assets held, resulting in an impact on the Group's profit before tax (PBT) for the period that is not significant.

(ii) Foreign exchange risk

The Group's financial reports are prepared in Australian dollars. The Group's revenues, expenses, cash flows, assets and liabilities in regions outside Australia are denominated in local currencies which include the United States dollar, Pound Sterling, Euro, South Korean won, Chinese yuan and Hong Kong dollar. Pepper manages its foreign exchange risk by matching the currency of loan receivables and funding, and by monitoring the cash flow requirements of the business and regional operating subsidiaries on an ongoing basis.

The Group does not hedge its offshore earnings or the capital invested in the overseas operations, thereby accepting the foreign currency translation risk on invested capital and offshore earnings.

The figures in the table below indicate the potential increase/decrease in profit before tax for the first half of the year due to a +/- 10% variance in the exchange rates.

10% variance +/-	30 June 2015 $000	30 June 2014 $000
Change in AUD : EUR exchange rate	415	208
Change in AUD : GBP exchange rate	338	213
Impact on profit before tax	753	421

Regulatory and compliance risk

Pepper South Korea is governed by the country's Mutual Savings Bank Act and is regulated by the Financial Supervisory Service and Financial Services Commission. Pepper must hold regulatory capital against its assets in South Korea. Pepper is currently required to maintain a minimum Bank for International Settlements (BIS) capital ratio of 6%. As of 30 June 2015, Pepper is compliant with the regulatory requirement.

Note 13 – Matters subsequent to the end of the reporting period

The Group embarked on an IPO and listed on the ASX on 31 July 2015. The ASX ticker code is PEP.

The IPO comprised an offer to issue 53.5 million shares by Pepper, and the sale of 2.3 million shares through the retail offer and an institutional offer, at an offer price of $2.60 per share. A significant portion of funds raised through the IPO have been utilised to repay the existing corporate debt facility.

One result of the IPO was the acceleration of existing share based payment schemes in place. This will impact the second half of the financial year by an expected $26m in expenses.

On 31 July 2015, Pepper Asset Servicing (Pepper Ireland), as part of the Group, was awarded the contract to provide third party asset servicing on a $5.6bn loan portfolio, recently acquired by Carval Investors and Goldman Sachs affiliated entities from Lloyds Banking Group.

Other than the matters above, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the Group's operations in future financial years, or the results of those operations in future financial years, or the Group's state of affairs in future financial years.

Directors' declaration

The directors of Pepper Group Limited declare that, in the directors' opinion:

a) As at the date of this declaration, there are reasonable grounds to believe that Pepper Group Limited will be able to pay its debts as and when they become due and payable; and

b) The condensed consolidated financial statements for the half year ended on 30 June 2015 and notes, as set out on pages 7 to 22, are in accordance with the Corporations Act 2001, including:

   i. section 304, which requires that the half year financial report to comply with the Accounting Standards made by the Australian Accounting Standards Board for the purposes of the Corporations Act 2001 and any further requirements in the Corporations Regulations 2001; and

   ii. section 305, which requires that the financial statements, and the notes to the financial statements give a true and fair view of the financial position and performance of the Group for the six months ended 30 June 2015.

Signed in accordance with a resolution of the Directors.

Seumas Dawes
Chairman and
Non-Executive Director
Sydney, 25 August, 2015

Patrick Tuttle
Co-Group Chief Executive Officer and
Director
Sydney, 25 August, 2015

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The Board of Directors
Pepper Group Limited
Level 9, 146 Arthur Street
North Sydney NSW 2060

25 August 2015

Dear Board Members,

Pepper Group Limited

In accordance with the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Pepper Group Limited.

As lead audit partner for the half-year review of the financial statements of Pepper Group Limited for the half-year ended 30 June 2015, 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

Jamie C. J. Gatt
Partner
Chartered Accountants
Sydney, 25 August 2015

Deloitte.

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Independent Auditor's Review Report to the members of Pepper Group Limited

We have reviewed the accompanying half-year financial report of Pepper Group Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2015, the condensed consolidated statements of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-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 end of the half-year or from time to time during the half-year as set out on pages 7 to 23.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pepper Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, 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 Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pepper Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie C. J. Gatt
Partner
Chartered Accountants
Sydney, 25 August 2015