ASX Appendix 4D

Results for announcement to the market

1. Company details

Name of entity:	Pepper Group Limited
ACN:	094 317 665
ABN:	55 094 317 665
Reporting period:	For the half-year ended 30 June 2016
Previous period:	For the half-year ended 30 June 2015

2. Results for announcement to the market

Performance

	Half year ended 30 June 2016 $'000	Half year ended 30 June 2015 $'000	% change
Total revenue	**326,006**	225,328	45%
Profit after tax attributable to equity holders	**24,441**	3,804	543%
Dividends (distributions)	**5,427**	1,901	185%

Dividends

The Directors approved an interim dividend in respect of the half year ended 30 June 2016 of 3 cents per share fully franked which will be paid in October 2016 to shareholders on the share register on 15 September 2016.

In April 2016, the Company paid a fully franked dividend of $5.4m to shareholders (30 June 2015: $1.9m to A class shareholders).

Comments

The profit for the period attributable to equity holders of the Company (after providing for income tax) amounted to $24.44m (2015: $3.80m).

Further information on the review of operations in the Directors' report attached as part of the financial statements.

3. Net tangible asset per security

Net tangible assets per share are calculated using tangible assets and the number of shares in issue as at 30 June 2016.

	As at 30 June 2016 $'000	As at 31 December 2015 $'000
Total assets ($'000)	**7,350,265**	6,546,375
Net tangible assets per share (dollars)	**2.09**	1.99

4. Controlled gained over entities.

Not applicable.

5. Loss of control over entities.

Name of entity	Pepper Investment Management Holdings Pty Limited	Pepper Investment Management Limited
Date control lost	04/02/2016	04/02/2016
Contribution to the Group's profit/(loss) from ordinary activities during the period ended 30 June 2016*	n/a	n/a
Contribution to to the Group's profit/(loss) from ordinary activities during the during the period ended 30 June 2015*	n/a	n/a

** if not material "N/A" has been presented*

6. Associate investments

	Reporting entity's % holding		Contribution to profit/(loss)	
	Reporting period	Previous period	Reporting period	Previous period
Name	%	%	$'000	$'000
Prime Credit Holdings Ltd	12%	12%	5,225	286

7. Foreign entities

The financial information presented for foreign entities which are consolidated is presented in accordance with Australian Accounting Standards.

8. Financial statements and Directors' report

The Directors' report and interim consolidated financial statements of Pepper Group Limited and its controlled entities for the period ended 30 June 2016 have been submitted.

For further information contact:

Name: Pepper Investor Relations
Phone: +61 (0)2 891 33030
Email: admin@pepper.com.au

This report should be read in conjunction with the 31 December 2015 Annual Report of Pepper Group Limited (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.

Interim Results Announcement
30 June 2016

Table of contents

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 2016.

The Board presents this report in order to provide shareholders with an overview of the Group's operations, financial position, business strategies and prospects for future financial periods.

Board of Directors

The names of the directors of the Company 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)

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 underserved by traditional banks and other lenders.

Pepper has developed a strong 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, Hong Kong and China.

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, consumer secured loans, and commercial real estate loans.

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

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

Pepper's unique operating model combines credit risk based underwriting expertise with highly developed specialist loan servicing and collection management capabilities which together deliver enhanced performance in both its lending and servicing businesses across multiple asset classes including: residential mortgages, auto loans, equipment finance, small balance commercial mortgages, small and medium sized enterprise loans and personal loans.

Pepper's core capabilities include:

- 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 Ireland 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 accredited brokers and 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 deep experience, expertise, analytical capabilities and a solution based approach to customer management.

Funding

Across each of its lending markets, Pepper maintains access to a diversified funding platform supported by established funding relationships and a Board approved funding policy.

The following funding channels are used to support Pepper's lending activities:

- 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;
- 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 and recycle capital; and
- South Korea deposits: Pepper's lending business in South Korea holds a banking license and the lending book is primarily funded by customer deposits.

Principal risks

The Group's key risks include, but are not limited to:

- Funding risk: Pepper's funding platform currently comprises a mix of warehouse facilities, term securitisations, corporate debt facilities, whole loan sales and customer deposits. Pepper depends on these sources to fund mortgage and consumer loan originations and therefore faces funding risks which could lead to the inability to access funding or less favourable terms;
- Capital and liquidity requirements: there is a risk that Pepper could be required to contribute additional "first loss" equity capital to support the credit position of senior ranking noteholders in Pepper warehouse facilities and term securitisations, and could be required to contribute additional capital to support the regulatory capital requirements or business needs of Pepper South Korea, which could impact Pepper's profitability, ability to grow and/or could force it to raise additional capital;
- Regulatory and licence compliance: Pepper is subject to extensive regulation in each of the jurisdictions in which it conducts its business. Changes in law or regulation in a market in which Pepper operates could materially impact the business. Pepper is licensed and/or registered to operate a number of its services across a range of jurisdictions. Changes to these licensing regimes, the revocation of existing licences, an inability to renew or receive necessary licences or the imposition of capital requirements could materially adversely affect Pepper's business, operating and financial performance; and
- Downturn in the global economy: Pepper is a global business operating in multiple jurisdictions. A material downturn in the economies in which Pepper operates, a sustained outbreak of higher inflation or shocks to the financial system could result in a material increase in unemployment, decreases in house prices, higher interest rates, general reduction in demand for credit and/or a reduction in a borrower's ability to service their debt (credit risk).

Business strategies

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

1. Organic lending growth

Australia and New Zealand (ANZ) Division[1]: Pepper is well-positioned to continue to build upon strong volume experienced in Australia, driven by:

- expected underlying market growth in the non-conforming (including near-prime) and prime segments of the residential mortgages market;
- continuing development of all distribution channels, and further investment in Pepper's brand positioning; and
- ongoing new product development initiatives such as Pepper Asset Finance and Personal Loans.

International Division[1]: Pepper expects growth to be driven by new lending in the United Kingdom, Spain and Ireland, in addition to continued strong growth in South Korea, Hong Kong and China.

2. Organic servicing growth

- Volume increases in Pepper originated loans are expected to support growth in servicing revenue;
- Servicing assets under management are expected to be driven by recently awarded third-party contracts; and
- Pepper continues to identify a healthy pipeline of potential new third-party servicing opportunities across Europe.

3. Acquisitive growth

- Management has demonstrated a strong track-record in identifying and executing acquisitions in targeted markets that are consistent with Pepper's strategy to deliver value outcomes and create platforms that can be used for future growth;
- 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; and
- Pepper will continue to explore opportunities for further international transaction collaborations and market specific partnership/joint venture style arrangements (where appropriate).

Note

1 – Refer to note 5 on page 18 for the definitions of Pepper's business segments.

Half year ended 30 June 2016 financial review

Income statement

Statutory income statement	Half year ended 30 June 2016 $'000	Half year ended 30 June 2015 $'000
Total revenue	326,006	225,328
Share of results from associates	5,225	286
Total expenses	(301,327)	(218,915)
Profit before tax	29,904	6,699
Profit after tax	24,420	3,750
Earning per share - basic (cents per share)	14.1	3.5

The Group recorded a statutory profit before tax for the half year of $29.9m, a 346% increase year on year (30 June 2015: $6.7m) which was in line with forecast.

Total statutory revenue increased $101m to $326m, driven by:
- a $82m increase in interest revenue in the ANZ Mortgage and Asset Finance businesses, and internationally in the Spanish and South Korean lending businesses, reflecting the organic growth of these underlying businesses; and
- a $14m increase in fee revenue in the UK and Irish servicing businesses, reflecting the improved performance of these businesses.

Total statutory expenses increased $82m to $301m, driven by:
- a $20m increase in employee benefits expenses, reflecting ongoing global investment into the growth of the Group's core businesses;
- a $24m increase in borrowing costs, reflecting global growth in the Group's lending businesses; and
- a $22m increase in net loan loss expenses, reflecting the growth of underlying portfolios in Australia, South Korea and Spain, and partially represent entry into unsecured higher margin markets in South Korea and Spain.

The share of results from associates increased $5m reflecting six months profit from the Group's investment in Prime Credit in Hong Kong and China (acquired in May 2015) versus only two months recorded in 2015; and the reversal of previously expensed amortisation of finite life intangible assets subsequently classified to goodwill by Prime Credit Holdings Ltd in 2016.

The Group performed in line with forecast, reflecting ongoing growth across the Group and continued investment into consumer lending in Australia, Spain and South Korea as well as into mortgage lending in the UK and Ireland.

Balance sheet

Statutory balance sheet extract Assets	As at 30 June 2016 $'000	As at 31 December 2015 $'000
Loans and advances	**6,480,334**	5,652,260
Total assets	**7,336,557**	6,546,375
Deposits	**1,173,881**	760,294
Borrowings	**5,579,631**	5,201,525
Total liabilities	**6,913,430**	6,137,760

The Group's loans and advances grew by $0.8bn (15%) in the first half of the year, underpinning its core profitability.

This increase was driven by prime and non-conforming mortgages, and asset and equipment finance in the ANZ Division, partially offset by a $400m whole loan sale of residential mortgages in March 2016.

The International Division also showed strong growth through the first half of the year driven by personal loans and residential mortgages in South Korea and personal loans in Spain. The UK and Ireland also demonstrated mortgage origination growth in line with forecast.

The asset growth was largely supported by increases in customer deposits in the South Korean Mutual Savings Bank together with increased securitised funding facilities in Australia driven by a $700m residential mortgage backed securitisation in March 2016 and increased warehouse funding facilities in the respective businesses where the loan growth resided.

Total equity attributable to the owners of the company	As at 30 June 2016 $'000	As at 31 December 2015 $'000
Issued capital	**298,080**	296,065
Retained earnings	**137,445**	118,431
Foreign currency translation reserve	**12,025**	18,839
Other equity and reserves	**(23,981)**	(23,961)
Total equity	**423,569**	409,374

The Group's total equity increased $14m (3%) in the first half of the year, driven by a $19m net increase in retained earnings from profits earned after a 3 cent per share dividend paid in April. The retained earnings increase was offset by a decrease in total other comprehensive income for the period, driven by the $7m decrease in the foreign currency translation reserve due to the effect of the strengthening Australian Dollar against the Pound Sterling (post Brexit), and the Hong Kong Dollar on the translation of the Group's foreign operations.

Dividends

The Directors approved an interim dividend in respect of the half year ended 30 June 2016 of 3 cents per share which will be paid in October 2016 to shareholders on the share register on 15 September 2016.

In April 2016, the Company paid a fully franked dividend of $5.4m to shareholders (30 June 2015: $1.9m to A class shareholders).

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Group during the first half of the year.

Events since the end of the financial period ended 30 June 2016

On the 29th of July 2016, Pepper and Spain's 6th largest banking group, Banco Popular (Popular) agreed to establish a joint venture in the Spanish unsecured consumer finance market, while also creating a global unsecured consumer finance alliance that provides both companies with further avenues for growth.

The joint venture will be owned 50% by Popular and 50% by Pepper and will combine each partner's respective unsecured consumer finance companies in Spain. The joint venture will be formed by Pepper selling its Spanish business to a Banco Popular subsidiary following which Pepper will be issued with 50% of the shares in the combined business. This series of transactions will give rise to a substantial gain on sale for Pepper.

As part of the overall transaction, Popular has agreed to become a strategic shareholder in Pepper with the following commitments:

- **Initial subscription:** Popular will subscribe for 5% of the Company's shares at a price determined under a formula, likely to be more than $2.60 per share (subject to capping and other provisions). Subject to the final subscription price that will be determined via a VWAP formula, Pepper will raise approximately $23m.

- **Additional subscription:** Popular and Pepper have also entered into a 5 year equity funding facility, under which Popular has agreed to subscribe for additional equity of up to $100m, subject to a shareholding cap at 19.9%[1].

The issuance of equity under the equity facility is at Pepper's sole election, and proceeds can be applied by Pepper to support growth across all of Pepper's operations. The facility can be terminated or suspended in certain circumstances. Popular will be entitled to a Board seat if its shareholding exceeds 13%.

The Group's results exclude the gain on sale of the Spanish business, which is expected to be recognised in the second half of 2016.

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 Corporations Instrument 2016/191.

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 23.

Note

1 – This excludes any shares that Banco Popular has acquired outside the transaction, in respect of which divestment provisions apply in the event they cause a subscription under the transaction to breach section 606 of the Corporations Act. The draw down of this facility is also subject to Pepper's solvency and other financial measures being satisfied. For more information refer to the disclosure on the ASX website.

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, 2016

Patrick Tuttle
Co-Group Chief Executive Officer and
Director
Sydney, 25 August, 2016

Condensed consolidated financial statements
Consolidated income statement

	Notes	Half year ended 30 June 2016 $'000	Half year ended 30 June 2015 $'000
Interest revenue		**224,550**	143,486
Fee revenue		**90,910**	76,075
Other revenue		**10,546**	5,767
Total revenue		**326,006**	225,328
Employee benefits expenses		**(98,687)**	(78,596)
Depreciation and amortisation expenses		**(4,367)**	(3,966)
Borrowing costs		**(120,240)**	(96,421)
Loan loss expenses		**(30,659)**	(8,837)
Other expenses from operations		**(47,374)**	(31,095)
Total expenses		**(301,327)**	(218,915)
Profit from share of results of associates		**5,225**	286
Profit before tax		**29,904**	6,699
Income tax expenses		**(5,484)**	(2,949)
Profit after tax		**24,420**	3,750
Profit for the year attributable to:			
Owners of the company		**24,441**	3,804
Non-controlling interests		**(21)**	(54)
		24,420	3,750
Earnings per share		**Cents**	Cents
Basic	2	**14.1**	3.5
Diluted	2	**13.9**	3.4

Notes to the condensed consolidated financial statements are found on pages 15 to 21.

Condensed consolidated financial statements
Consolidated statement of comprehensive income

	Notes	Half year ended 30 June 2016 $'000	Half year ended 30 June 2015 $'000
Profit after tax		**24,420**	3,750
Other comprehensive income / (expense) that may be recycled to profit or loss:			
Currency translation reserve movements	7	**(6,814)**	(191)
Cash flow hedge reserve movements	7	**809**	(253)
Available for sale reserve movements	7	**-**	(5)
Total other comprehensive income that may be recycled to profit or loss		**(6,005)**	(449)
Other comprehensive income not recycled to profit or loss (net of tax):			
Retirement benefit remeasurements		**20**	36
Other comprehensive income for the period		**(5,985)**	(413)
Total comprehensive income for the period		**18,435**	3,337
Total comprehensive income / (expense) attributable to:			
Owners of the company		**18,456**	3,391
Non-controlling interests		**(21)**	(54)
		18,435	3,337

Notes to the condensed consolidated financial statements are found on pages 15 to 21.

Condensed consolidated financial statements
Consolidated balance sheet

	Notes	As at 30 June 2016 $'000	As at 31 December 2015 $'000
Assets			
Cash and cash equivalents		**505,467**	555,737
Investment securities	8	**34,943**	1,197
Derivative financial assets	8	**8,427**	23,080
Receivables		**55,805**	70,687
Other assets		**24,594**	13,402
Loans and advances	3	**6,480,334**	5,652,260
Deferred tax assets		**15,773**	16,461
Other investments		**42,168**	42,432
Investment in associates		**94,436**	94,075
Property, plant and equipment		**13,237**	12,602
Intangible assets		**38,487**	39,674
Goodwill		**22,886**	24,768
Total assets		**7,336,557**	6,546,375
Liabilities			
Deposits		**1,173,881**	760,294
Derivative liabilities	8	**9,699**	1,954
Trade and other payables		**26,380**	25,425
Current tax liabilities		**2,752**	3,267
Borrowings	4	**5,579,631**	5,201,525
Other liabilities		**100,431**	114,872
Provisions		**20,656**	29,618
Deferred tax liabilities		**-**	805
Total liabilities		**6,913,430**	6,137,760
Total net assets		**423,127**	408,615
Equity			
Issued capital	6	**298,080**	296,065
Other equity	7	**(23,149)**	(22,332)
Other reserves	7	**11,193**	17,210
Retained earnings		**137,445**	118,431
Total equity attributable to the owners of the company		**423,569**	409,374
Non-controlling interests		**(442)**	(759)
Total equity		**423,127**	408,615
Net assets per share (dollars)		**2.4**	2.4
Net tangible assets per share (dollars)		**2.1**	2.0

Notes to the condensed consolidated financial statements are found on pages 15 to 21.

Condensed consolidated financial statements
Consolidated statement of changes in equity

	Issued capital $'000	Other equity $'000	Other reserves $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total equity $'000
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)
Cash flow 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**
Profit for the period	-	-	-	(347)	(347)	2	(345)
Available for sale investments	-	-	5	-	5	-	5
Currency translation movements	-	-	11,483	-	11,483	-	11,483
Cash flow hedge movements	-	-	(947)	-	(947)	-	(947)
Retirement benefit remeasurements	-	(93)	-	-	(93)	-	(93)
Total comprehensive income for the period	-	**(93)**	**10,541**	**(347)**	**10,101**	**2**	**10,103**
Contributions of equity	129,636	(5,840)	-	-	123,796	-	123,796
Recognition of share based payments	32,045	(35)	-	-	32,010	-	32,010
Other movements	-	-	-	(1)	(1)	-	(1)
Balance at 31 December 2015	**296,065**	**(22,332)**	**17,210**	**118,431**	**409,374**	**(759)**	**408,615**
Profit for the period	-	-	-	**24,441**	**24,441**	**(21)**	**24,420**
Currency translation movements	-	-	**(6,814)**	-	**(6,814)**	-	**(6,814)**
Cash flow hedge movements	-	-	**809**	-	**809**	-	**809**
Retirement benefit remeasurements	-	**20**	-	-	**20**	-	**20**
Total comprehensive income for the period	-	**20**	**(6,005)**	**24,441**	**18,456**	**(21)**	**18,435**
Contributions of equity	**2,015**	**(2,015)**	-	-	-	-	-
Dividend paid	-	-	-	**(5,427)**	**(5,427)**	-	**(5,427)**
Recognition of share based payments	-	**1,178**	-	-	**1,178**	-	**1,178**
Other movements	-	-	**(12)**	-	**(12)**	**338**	**326**
Balance at 30 June 2016	**298,080**	**(23,149)**	**11,193**	**137,445**	**423,569**	**(442)**	**423,127**

Notes to the condensed consolidated financial statements are found on pages 15 to 21.

Consolidated statement of cash flows

	Half year ended 30 June 2016 $'000	Half year ended 30 June 2015 $'000
Cash flows from operating activities		
Receipts from customers	**141,210**	115,151
Payments to suppliers and employees	**(197,153)**	(149,520)
Interest received	**257,509**	171,941
Interest and other finance costs paid	**(137,379)**	(110,861)
Income taxes paid	**(5,673)**	(6,105)
Net cash inflow from operating activities	**58,514**	**20,606**
Cash flows from investing activities		
Payments for property, plant and equipment	**(5,367)**	(4,866)
Payments for intangibles	**(3,399)**	(1,159)
Investment in equity	**(4,817)**	(730)
Amounts received from / (advanced to) related parties	**(139)**	(3,590)
Payments for arrangement fees	**(4,061)**	(3,821)
Repayment of / (investment in) notes	**3,151**	(6,646)
(Investment in) / repayment of debt securities	**(33,696)**	74
Net (increase) / decrease in loans and advances	**(1,274,008)**	(556,932)
Net cash outflow from acquisition / deconsolidation of subsidiaries	**(313)**	(1,661)
Payments received from / (made for) investment in associate	**2,416**	(79,997)
Receipts from sale of loan portfolios	**403,767**	99,998
Net cash outflow from investing activities	**(916,466)**	**(559,330)**
Cash flows from financing activities		
Net proceeds from issuance of capital	-	24,133
Redemption of preference shares	-	(36,145)
Net increase in borrowings	**406,355**	302,114
Net increase in deposits	**407,539**	153,089
Dividend paid	**(5,425)**	(1,901)
Net cash inflow from financing activities	**808,469**	**441,290**
Effects of exchange rate changes on balance of cash held in foreign currencies	**(787)**	(70)
Net increase in cash and cash equivalents	**(50,270)**	(97,504)
Cash and cash equivalents at the beginning of the financial period	**555,737**	462,445
Cash and cash equivalents at the end of the financial period[1]	**505,467**	**364,941**

Notes to the condensed consolidated financial statements are found on pages 15 to 21.

Note

1 - $234m of this balance is held on trust (30 June 2015: $218m). Of the balance not held on trust, $129m (30 June 2015: $70m) is restricted cash in Pepper Savings Bank which is unable to be transferred from South Korea, and $106m is held as part Pepper's day to day clearing and origination operations (30 June 2015: $19m).

Note 1 – Basis of preparation of interim financial report

Basis of preparation

This general purpose interim financial report for the half year ended 30 June 2016 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* which ensures compliance with International Accounting Standard IAS 34 *Interim Financial Reporting.*

This report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2015 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 accounting policies adopted in the preparation of this report are consistent with those adopted and disclosed in the annual report for the year ended 31 December 2015.

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 Corporations Instrument 2016/191.

Accounting judgements, estimates and assumptions

In preparing the interim financial report, the application of the Group's accounting policies requires the use of judgments, estimates and assumptions.

The areas of judgment, estimates and assumptions in the interim financial report, including the key sources of estimation uncertainty, are consistent with those in the annual financial report for the year ended 31 December 2015.

New standards and interpretations not yet adopted

AASB 9 Financial instruments: effective for annual reporting periods beginning on or after 1 January 2018

AASB 9 replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 includes 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. It also carries forward the guidance on recognition and de-recognition of financials instruments from AASB 139.

The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9, which has not yet been determined.

AASB 15 Revenue from contracts with customers: effective for annual reporting periods beginning on or after 1 January 2018.

AASB 15 replaces the existing revenue recognition guidance in AASB 18: *Revenue* and AASB 111: *Construction Contracts*. AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The Group is in the process of assessing the full impact of the application of AASB 15. The financial impact on the financial statements has not yet been determined.

AASB 16 Leases: effective for annual reporting periods beginning on or after 1 January 2019.

AASB 16 introduces a new lease accounting model for lessees that requires lessees to recognise all leases on balance sheet, except for short-term leases and low value assets and amortisation of lease assets and interest on lease liabilities in the income statement. It will be mandatorily effective for reporting periods beginning on or after 1 January 2019. The Group is in the process of assessing the impact of the application of AASB 16. The financial impact on the financial statements has not yet been determined.

There have been no other new or amended accounting standards during the reporting period ended 30 June 2016 that have had or may have a significant impact on the financial results of the Group.

Note 2 – Earnings per share

Methodology

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 (excluding treasury shares). 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 include the share options granted to employees.

Calculation

	Half year ended 30 June 2016	Half year ended 30 June 2015[1]
Profit for the period attributable to the owners of the company ($'000)	**24,441**	3,804
Weighted average number of ordinary shares (thousand):		
Issued ordinary shares at the start of the period	**173,390**	103,838
Effect of allotment and issuances	**-**	9,101
Issued ordinary shares at the end of the period[1]	**173,390**	112,939
Weighted average number of shares (basic)	**173,390**	108,389
Effect of share options in issue	**2,494**	8,527
Weighted average number of shares (diluted)	**175,418**	112,652
	cents	cents
Basic earnings per share	**14.1**	3.5
Diluted earnings per share	**13.9**	3.4

Note

1 During the second half of 2015 a share split occurred, which resulted in the issuance of shares without a corresponding change in the resources of the Group. This means that in accordance with AASB 133 the Group have presented the earnings per share calculation as if the shares on issue after the share split were on issue for the full period for each period presented (retrospectively adjusting the 2015 calculation presented).

Note 3 – Loans and advances

	As at 30 June 2016 $'000	As at 31 December 2015 $'000
Loans and advances residing in securitised trusts	**2,609,883**	2,348,819
Loans and advances residing in funding warehouses	**2,775,523**	2,635,702
Loans and advances residing in corporate entities	**1,094,928**	667,739
Total loans and advances	**6,480,334**	5,652,260
Loans and advances by product		
Residential mortgages	**4,844,066**	4,507,182
Auto and equipment finance	**653,831**	414,093
Point-of-sale finance	**106,112**	107,842
Personal loans	**691,518**	457,385
Other loans and advances to customers	**184,807**	165,758
Total loans and advances	**6,480,334**	5,652,260
Impairment provisions (included in the balances above):		
Specific impairment provision	**15,672**	12,238
Collective provision	**24,852**	12,054
Total impairment provisions	**40,524**	24,292

Loans in securitised trusts increased $261m, driven by a $700m residential mortgage backed securitisation (RMBS) in Australia in March 2016, offset by the pay down of securitised portfolios during the year. Loans in funding warehouses increased $140m, driven by asset and equipment finance and residential mortgage originations in Australia, offset by a $400m whole loan sale of residential mortgages and the $700m RMBS in March 2016. Loans in corporate entities increased $427m driven by personal loan and residential mortgage originations in South Korea.

Impairment provisions held against loans and advances increased $16m in line with the growth of underlying portfolios in Australia, South Korea and Spain, and partially represent entry into unsecured higher margin markets in South Korea and Spain.

Note 4 – Borrowings

	As at 30 June 2016 $'000	As at 31 December 2015 $'000
Non-recourse facilties		
Securitised funding facility	**2,714,162**	2,577,597
Warehouse facility - secured	**2,767,980**	2,585,927
Corporate debt facility	**97,489**	38,001
Total borrowings	**5,579,631**	5,201,525

Securitised funding facilities are secured only on the assets of each of the individual securitised 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. Corporate debt facilities are secured over certain assets of the Group.

Non-recourse facilities
During the period, $782m of new securitised funding facilities were obtained (30 June 2015: $901m) and at 30 June 2016 the Group had an undrawn balance of $1.2bn on its warehouse funding facilities (31 December 2015: $1.1bn).

Corporate debt facility
As at 30 June 2016 the Group had an undrawn balance of $31m on its corporate debt facility (31 December 2015: $92m).

Note 5 – Segmental reporting

The Group's executive management team examines the Group's performance both from a product and geographic perspective and has identified the following operating and reportable segments:

- 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.
- The International Division includes the revenues and direct expenses associated with lending and servicing operations conducted by Pepper outside Australia and New Zealand.
- The Corporate Division represents group executives' costs and group support functions not specifically aligned to business operations in the ANZ or International Divisions.

Half year ended 30 June 2016	ANZ Division $'000	International Division $'000	Corporate Division $'000	Total $'000
Revenue				
Interest revenue external to the Group	157,022	67,306	222	224,550
Intersegment interest	376	(376)	-	-
Fee revenue	18,011	72,899	-	90,910
Other revenue	10,814	(287)	19	10,546
Expenses				
Depreciation and amortisation	(1,665)	(2,702)	-	(4,367)
Borrowing costs	(100,701)	(16,607)	(2,932)	(120,240)
Loan loss expenses	(11,762)	(18,897)	-	(30,659)
Employee and other operating expenses	(47,125)	(85,020)	(13,916)	(146,061)
Other net income				
Equity profits from associates	-	5,225	-	5,225
Profit before taxation	24,970	21,541	(16,607)	29,904
Taxation	(7,616)	(2,726)	4,858	(5,484)
Profit after tax	17,354	18,815	(11,749)	24,420
Balance sheet at at 30 June 2016				
Total assets	5,842,009	1,494,548	-	7,336,557
Total liabilities	5,455,208	1,446,473	11,749	6,913,430
Investment in associates	-	94,436	-	94,436

Half year ended 30 June 2015	ANZ Division $'000	International Division $'000	Corporate Division $'000	Total $'000
Revenue				
Interest revenue external to the Group	127,803	15,683	-	143,486
Intersegment interest	790	(790)	-	-
Fee revenue	17,515	58,560	-	76,075
Other revenue	1,892	3,875	-	5,767
Expenses				
Depreciation and amortisation	(1,322)	(2,644)	-	(3,966)
Borrowing costs	(86,765)	(6,092)	(3,564)	(96,421)
Loan loss expenses	(3,753)	(5,084)	-	(8,837)
Employee and other operating expenses	(32,025)	(60,721)	(16,945)	(109,691)
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
Balance sheet as at 31 December 2015				
Total assets	5,365,733	1,180,642	-	6,546,375
Total liabilities	5,096,696	1,024,882	16,182	6,137,760
Investment in associates	-	94,075	-	94,075

Note 6 – Issued capital

	As at 30 June 2016 Number of shares '000	As at 30 June 2016 $'000	As at 31 December 2015 Number of shares '000	As at 31 December 2015 $'000
Pepper Group Limited ordinary shares	**181,955**	**298,080**	181,123	296,065
	181,955	**298,080**	181,123	296,065

During the period, the Company issued 832,478 shares under its long term employee incentive share scheme. In April 2016, the Company paid a fully franked dividend of $5.4m to shareholders (30 June 2015: $1.9m to A class shareholders).

Note 7 – Other equity and reserves

	As at 30 June 2016 $'000	As at 31 December 2015 $'000
Equity settled employee benefits reserve	**8,052**	6,854
Common control reserve	**(18,653)**	(18,653)
Treasury shares	**(12,548)**	(10,533)
Total other equity	**(23,149)**	(22,332)
Foreign currency translation reserve	**12,025**	18,839
Cash flow hedge reserve	**(820)**	(1,629)
Other reserve movements	**(12)**	-
Total other reserves	**11,193**	17,210

The equity settled employee benefits reserve increased due to share based payments accounted for under AASB 2 in relation to the Group's long term employee incentive share scheme. Treasury shares also increased as the shares issued were held on trust for the employee incentive share scheme.

The foreign currency translation reserve decrease was due to the effect of the strengthening Australian Dollar against the Pound Sterling (post Brexit), and the Hong Kong Dollar on the translation of the Group's foreign operations. The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges offset by foreign currency movements on the hedged items.

Note 8 – Fair value of financial assets and liabilities

Fair value of assets and liabilities not measured at fair value

The Group has considered all financial assets and liabilities not carried at fair value to determine whether the carrying value is an accurate reflection of fair value. For financial assets and liabilities whose carrying value does not accurately reflect the fair value, the Group performed a discounted cash flow valuation to determine fair value at the balance date.

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:

	As at 30 June 2016 Carrying value $'000	As at 30 June 2016 Fair value $'000	As at 31 December 2015 Carrying value $'000	As at 31 December 2015 Fair value $'000
Loans and advances	**6,480,334**	**6,482,566**	5,652,260	5,658,619
Other investments[1]	**27,130**	**28,912**	30,544	31,478

Note

1 – $15.038m of other investments are not financial assets and have been excluded from the analysed balance ($11.888m 31 December 2015).

Note 8 – Fair value of financial assets and liabilities (continued)

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 hierarchy	Valuation technique(s) and key input(s)	30 June 2016 $'000	31 December 2015 $'000
Investment securities	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, approriate discount rates.	**34,943**	1,197
Interest rate swaps	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, approriate discount rates.	**(7,035)**	(1,954)
Cross currency interest rate swaps	Level 2	Discounted cash flow. Forward exchange rates, contract forward rates, approriate discount rates.	**5,763**	23,080

In the six months to 30 June 2016 there has been no change in the fair value hierarchy or the valuation techniques applied.

Note 9 – Related party transactions

Related party transactions in the period ended 30 June 2016 were similar in nature to those disclosed in the Group's 2015 Annual Report. No related party transactions that have taken place in 2016 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 2015 Annual Report that could have a material effect on the financial position or performance of the Group in the current financial year.

Note 10 – Guarantees, contingent liabilities and contingent assets

The Group has not issued any guarantees and does not have any contingent assets or contingent liabilities.

Note 11 – Significant events and transactions in the current reporting period

There were no other significant events or transactions during the first half of the year that have not been disclosed elsewhere in this financial report.

Note 12 – Matters subsequent to the end of the reporting period

On the 29th of July 2016, Pepper and Spain's 6th largest banking group, Banco Popular (Popular) agreed to establish a joint venture in the Spanish unsecured consumer finance market, while also creating a global unsecured consumer finance alliance that provides both companies with further avenues for growth.

The joint venture will be owned 50% by Popular and 50% by Pepper and will combine each partner's respective unsecured consumer finance companies in Spain. The joint venture will be formed by Pepper selling its Spanish business to a Banco Popular subsidiary following which Pepper will be issued with 50% of the shares in the combined business. This series of transactions will give rise to a substantial gain on sale for Pepper.

As part of the overall transaction, Popular has agreed to become a strategic shareholder in Pepper with the following commitments:

- **Initial subscription:** Popular will subscribe for 5% of the Company's shares at a price determined under a formula, likely to be more than $2.60 per share (subject to capping and other provisions). Subject to the final subscription price that will be determined via a VWAP formula, Pepper will raise approximately $23m.

- **Additional subscription:** Popular and Pepper have also entered into a 5 year equity funding facility, under which Popular has agreed to subscribe for additional equity of up to $100m, subject to a shareholding cap at 19.9%[1].

The issuance of equity under the equity facility is at Pepper's sole election, and proceeds can be applied by Pepper to support growth across all of Pepper's operations. The facility can be terminated or suspended in certain circumstances. Popular will be entitled to a Board seat if its shareholding exceeds 13%.

The Group's results exclude the gain on sale of the Spanish business, which is expected to be recognised in the second half of 2016.

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 2016 and notes, as set out on pages 10 to 21, 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 2016.

Signed in accordance with a resolution of the Directors.

Seumas Dawes
Chairman and
Non-Executive Director
Sydney, 25 August, 2016

Patrick Tuttle
Co-Group Chief Executive Officer and
Director
Sydney, 25 August, 2016

Deloitte.

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

25 August 2016

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 partners for the half-year review of the financial statements of Pepper Group Limited for the half-year ended 30 June 2016, 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 review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie C. J. Gatt
Partner
Chartered Accountants

Heather Baister
Partner
Chartered Accountants

Sydney, 25 August 2016

Deloitte Touche Tohmatsu
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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 2016, 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 10 to 22.

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 2016 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 2016 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

Heather Baister
Partner
Chartered Accountants

Sydney, 25 August 2016