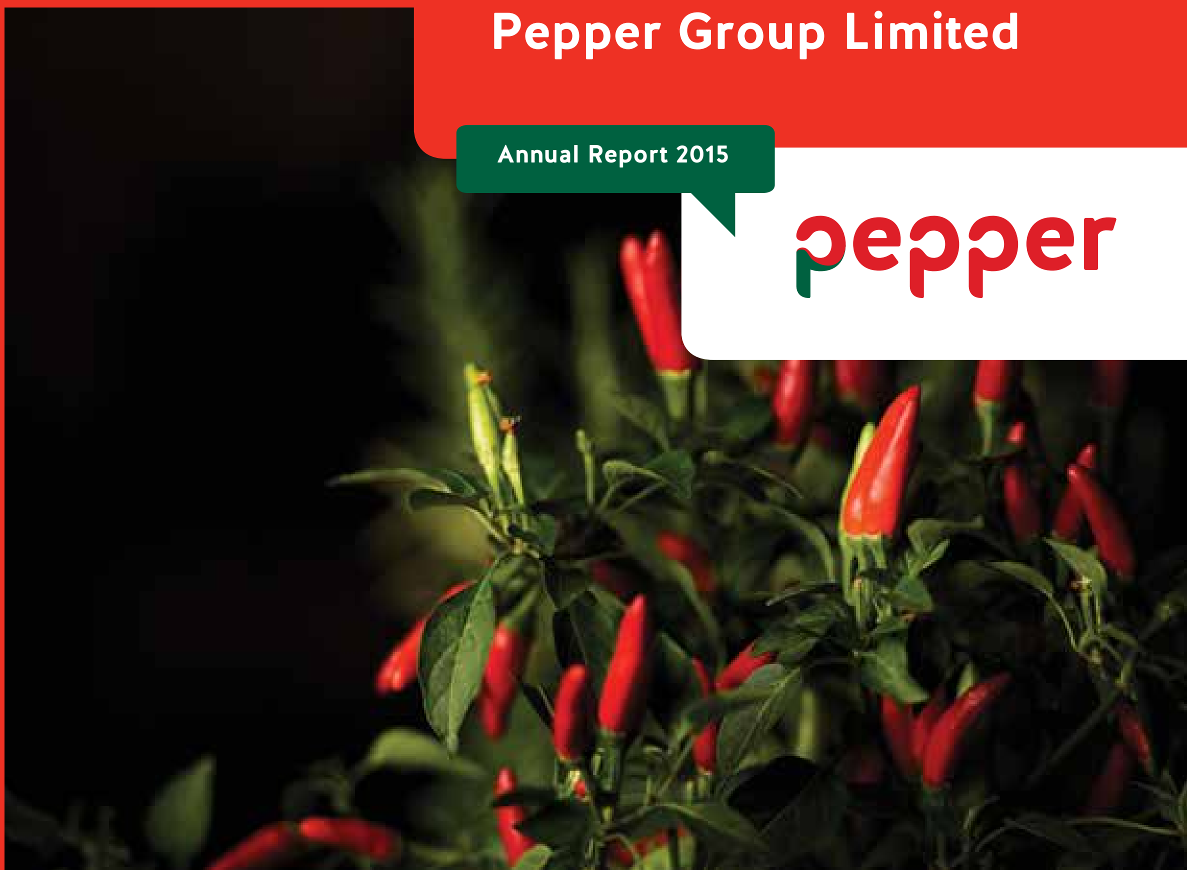
Pepper Group Limited

Annual Report 2015



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Our first Annual General Meeting
The Annual General Meeting
of Pepper Group Limited will be held at:

Christies
Miller Street
North Sydney NSW 2060
Time: 10.00am
Date: 26 May 2016

A formal notice of meeting is available on our website and has been sent to shareholders.

Welcome to Pepper

We are part of a new world of doing business.

Our centre of gravity is the consumer: Increasingly savvy, determined to get what they want, impatient for outcomes, insistent on great service, time-poor, digitally active, price-driven and with high expectations of a personalised experience.

Businesses can no longer look at this world through old paradigms. There is an essential new balance to maintain. It requires investment in infrastructure, a deep understanding of risk, technologies, analytics, and design-led processes – all of which have people firmly at their core. And that is our strength as a brand: Our ability to balance expertise with the human side of doing business. It is the capability we will continue to nurture in this new world of digitally-led, customer-driven outcomes.

Great customer experiences, across every channel, will be the engine that drives our success. And every part of our business has its role to play in ensuring we continuously refine and improve what that means for our customers. We need to continue to know them deeply, to discover and deliver the means they need to succeed in their ambitions.

As a leading non-bank lender, we specialise in flexible loan solutions based on individual credit assessment. It enables us to support many borrowers who fall outside the credit criteria of the major banks. Our lending capabilities include providing consumer finance (home loans, car loans, personal loans) and commercial loans (equipment leases, commercial vehicles, real estate).

As a third party servicer, we administer loan books on behalf of other banks and financial institutions – when they don't have the capacity. We step in, using our own processes or expertise to administer loan payments or manage the arrears and recovery process.

We work with professional brokers and directly with our customers, both personal and commercial.

Being 'among the best' is not good enough. We want to be known as the brand that always delivers, the No.1 consumer finance house in every one of our markets.

We live our mission statement: To help people succeed.

Our story and name echo a much older tale.

Centuries before us, people traded pepper through an ancient network of trade routes called The Silk Road.

The spice trade was vital to the economy of the known world, not only in terms of the goods they traded, but also because of the interaction between cultures it generated.

It was literally what connected East and West.

Then, a series of events reshaped the entire world as we now know it.

A hostile takeover of the Byzantine Empire by the Ottoman Turks led to a blockade of The Silk Road and spice trade routes, forcing traders to seek new ways of doing business such as sea routes. It was a direct trigger for a massive era of fresh thinking, creativity and innovation – what we now call the Age of Discovery.

Pepper is a modern twist on this ancient story of influence.

Barriers to the supply of money to any sort of endeavour that fell outside a very narrow perspective, led directly to a need for alternative sources of funding – and to the creation of this company.

Just as adversity opened up new opportunities then, so it does now.

To realise these opportunities requires an attitude, a DNA-deep sense of 'can do'.

It's what led to the Pepper paradigm, a new way of financing the ambitions of the amazingly diverse people we now serve. And it has grown rapidly – into new thinking, new products, new services; and into new countries across the world.

From our initial beginning we've launched a whole new age of discovery. Our objective is the long-term success of the growing communities that are joining us.

Our mission: To help people succeed.

This is possible because of the qualities at the heart of our brand.

The characteristics of 'can do', 'balance', and the ability to keep it real are the foundations of why we are so good at what we do; and what will keep us on track as we grow. They are the bedrock of our culture, what sets us apart. They are what we aspire to, live by and hold ourselves to account for.

Can do We are ambitious and entrepreneurial, so we look for opportunities. We think outside of the box when it comes to developing solutions for our customers and our teams. We leverage the power of teamwork to deliver. Our ability to be decisive drives our effectiveness.

Balanced We come with considerable experience; we know how to handle the relationship between opportunity and risk. We understand how to create situations that can set people up for success – and that even in adversity producing a win-win is both human and profitable.

Real We respect people and are totally honest with them. If we can help we will. If we can't, we'll say so. People want you to be straight with them and they like to understand how things are going – so we tell them. Trust is built by acting with integrity, by doing what you said you'd do. And understanding what people need.

Financial highlights

$ millions	CY 2014 Actual	Pro forma CY 2015 Prospectus	CY 2015 Actual	YOY% Change
Total income	234.9	304.0	304.3	**30%**
Adjusted NPAT	35.1	47.0	48.6	**38%**
AUM	28,623.2	41,282.3	45,538.2	**59%**
Servicing AUM	24,440.2	35,934.5	39,926.0	**63%**
Lending AUM	4,183.0	5,347.8	5,612.2	**34%**
Loan originations	1,650.3	3,059.5	3,255.8	**97%**

Adjusted NPAT
$48.6m

Statutory NPAT
$3.4m

AUM
$45.5bn

Strong growth – In just four years, our combined lending and servicing assets under management (AUM) have gone from $4 billion in 2012 to $45.5 billion at the end of 2015 – a compound annual growth rate (CAGR) of 126%.

Significant servicing contract wins – Pepper added a record 20 new servicing portfolios in the UK, Ireland and Spain in 2015. The large Lloyds Banking Group contract announced in early October 2015 will add $8.8 billion in AUM in 2016.

Continued investment in new business – Pepper has continued to invest in new business in order to support the significant growth we want to deliver, all while meeting our promise to shareholders on adjusted NPAT performance for the year.

The difference between the statutory NPAT and adjusted NPAT result mainly relates to the following proforma adjustments:
1) Acceleration of a management LTI scheme
2) IPO related expenses and a revised capital structure
3) Annualisation of acquisitions during the reporting period

6 month
fully franked dividend
3cps

Chairman's message

Dear shareholders

I am pleased to present Pepper's inaugural annual report to its shareholders. On behalf of my fellow Directors, I'd like to thank you for becoming a shareholder this year.

Since 2001, Pepper has financed consumers, including the full-time employed, self-employed, small business owners, and a growing number of people who fall outside traditional credit-scoring models.

15 years into its journey, Pepper is a much bigger company but our philosophy has not changed.

Pepper lends money in Australia, parts of Asia and Europe for home and auto purchases and for general personal use. We often lend when the banks won't, and we can do this because we have developed advanced credit processes and importantly, by getting to know customers' individual circumstances intimately.

Pepper sells its lending products through third party brokers, white label arrangements and via a growing direct to consumer channel.

We also manage performing and non-performing loan books on behalf of other banks, financial institutions and fund managers when they don't have the capacity or desire to manage those books in-house. This allows us to step in and use our own proprietary methods to provide customer service, collect payments, or manage arrears and asset recoveries. The best environment for this activity has been in countries deeply affected by banking and financial crises like Ireland, the UK and Spain.

When Pepper first started in 2001, listing on the Australian Securities Exchange (ASX) was a general long-term ambition. In the immediate aftermath of the global financial crisis, the company's priority was on profitable growth as a private entity. As the long-term implications of the crisis became clearer, and the range of opportunities expanded beyond our earlier expectations, the company saw access to capital through a listing as the most flexible and efficient way of financing ourselves.

Senior management and members of the Board, including me, are shareholders. We did not sell shares through the IPO process, and remain committed investors in the business.

As part of that listing, we are proud that long-serving employees in Australia, the UK, Ireland, Spain and South Korea became shareholders alongside our founders and private investors, through the grant of $1,000 worth of Pepper shares per eligible employee.

Pepper issued 181,122,106 ordinary shares at $2.60 per share which included raising $144.5 million. This allowed Pepper to repay existing corporate debt and to strengthen our balance sheet. Our intention is to continue reinvesting into new growth opportunities in the future.

The group today has combined assets under management of $45.5 billion comprising $5.6 billion in lending assets and $39.9 billion in funds we service on behalf of other institutions. These assets under management have grown quickly through a strategy of organic, sales-led growth, as well as via acquisition.

In February 2016, we were proud to announce an adjusted Net Profit After Tax of $48.6 million, which was 3.4% ahead of prospectus forecasts and up 38% on the equivalent 2014 result. Pepper was also pleased to declare a maiden dividend as a listed entity of 3 cents per share, fully franked for the six months to 31 December 2015, which was paid to shareholders in April 2016.

While we are better known in Australia as a residential mortgage lender, much of our recent growth has come from our offshore businesses. In fact, almost 60% of our revenue now comes from overseas.

Ours is an exciting story. We have identified under-serviced markets, both in Australia and around the world and continue to target, and develop the necessary lending and servicing products and expertise to serve those niches.

On behalf of the Board of Pepper, I look forward to sharing the benefits of our growth with shareholders over the long term.

Seumas Dawes Chairman

Co-Group CEOs' overview

2015 has been a standout year for the Pepper business.

On 31 July 2015, Pepper made the transition from a private to a public company through an IPO. It underscores the maturity of Pepper and our success in building a very solid and stable business.

As a truly international, diversified financial services company, we have continued to deliver strong growth in residential mortgage lending, auto finance, consumer lending and offshore third party servicing during 2015.

Pepper's results were ahead of prospectus forecasts and up by 38% on last year

Our first full year result as a listed entity was announced in February 2016 when Pepper revealed an adjusted net profit after tax of $48.6 million, which was ahead of prospectus forecasts and a 38% increase on last year's corresponding result.

The underlying drivers of this profit were:

- the strong growth in the Australian mortgage business that came via multiple channels (i.e. mortgage brokers, white label partners and the recently launched direct to consumer channel);
- significant third party servicing contract wins offshore throughout the year; and
- continued investment in growing early stage business opportunities.

This year, our proudest achievement was that we were able to grow our profit before tax, notwithstanding material investment in early stage businesses and taking on additional costs to support important new servicing contract wins in Ireland and the UK.

We have a consistent track record of delivering growth, it's in our culture

Over the past four years, we have increased our combined lending and servicing assets under management (AUM) from $4 billion in 2012 to $45.5 billion at the end of 2015 – this represents a compound annual growth rate (CAGR) of 126%.

Our total group assets comprise A$39.9 billion of Servicing AUM, up 11% on our prospectus forecast; and A$5.6 billion of Lending AUM, up 5% on our prospectus forecast.

We were also able to further reinforce our strong growth culture by making additional investments to support the significant growth we aim to deliver in the future, all while meeting our promise to shareholders on adjusted NPAT performance for the year.

This year our main investments were made:

- in early stage and new business opportunities, including auto finance in Australia, commencement of residential lending in the UK, the expansion of consumer lending products in South Korea and a 12% stake in Hong Kong based Prime Credit, investing alongside China Travel Service and York Capital; and
- in employing additional employees ahead of on-boarding significant servicing mandate wins internationally.

Without these investments, our profit before tax result would have been approximately $4 million higher.

Our income increased 30% with international income contributing strongly

Pepper achieved total income of $304.3 million in 2015 – a 30% increase on the previous year. Despite being best known as an Australian-based lender, our growing presence in regions such as Europe and Asia meant that 57.8% of Pepper's earnings came from our offshore businesses.

Lending income was $105.9 million, up 27% on last year. In Australia, this growth in lending income was underpinned by record loan originations of $1.86 billion. Our Australian auto finance business also achieved solid growth, albeit we deliberately controlled the expansion of our distribution channels in 2015 in favour of bedding-in strong service standards to support future growth.

Internationally, activity in our newly launched UK mortgage lending business was slightly behind expectations; however this was offset by strong consumer lending activity in both Spain and South Korea.

To boost consumer awareness of the Pepper brand, a substantial and continuing investment has been made in our brand during 2015. In 2016, we are embarking on a comprehensive rebranding exercise. We are seeking to evolve our retail consumer lending name to Pepper Money, here in Australia and across the globe. While we will always be Pepper, we want to be clear to consumers about what we offer and remove any confusion people may have regarding what we do. This increased consumer awareness will also assist brokers in selling Pepper products.

Co-Group CEOs' overview

"This year, Pepper delivered on prospectus forecasts, and, importantly, we did this whilst continuing to invest heavily in long-term growth."

It's not just a new logo. This rebrand has been developed from the inside out to reflect what our people value and what value we can offer in return over the long term.

As a group we now sponsor the St Kilda AFL club, the Western Sydney Wanderers in the A-League, and we have naming rights to the Pepper Stadium, the home ground of the Penrith Panthers rugby league club, here in Australia. In Europe we are also a proud sponsor of the Shamrock Rovers in the SSE Airtricity League.

On the loan servicing side of our business, income for the calendar year grew by 46% to $167.4 million. A combination of boarding fees, performance and exit fees accompanied the strong annuity earnings derived from the record 20 new servicing portfolios boarded in the UK, Ireland and Spain. In Australia, we effectively redeployed excess capacity in third party servicing towards our growing mortgage and auto lending books.

The large Lloyds Banking Group contract we announced in early October 2015, which will add close to $9 billion in AUM, will only start to board in early Q2 2016. For this contract, we were required to significantly ramp up headcount ahead of the on-boarding process which had an impact on costs in 2015.

We are confident about the year ahead and the continued trajectory of the business

We have made a deliberate and methodical investment into new business lines and significant new servicing contracts, as well as fostering organic growth within our Australian mortgage lending business. In fact, we have invested $25 million into new lending platforms over the past three years and we remain confident that these investments will generate strong returns into 2016 and beyond.

Subject to market conditions and based on our expectation of wider funding margins Pepper is targeting an adjusted NPAT of at least $59 million in CY2016. This is an increase of 21% from the $48.6 million adjusted NPAT reported for CY2015.

Future growth in adjusted NPAT will come from across the business remembering that the geographic and profit centre diversity of our business allows for earnings to be delivered through multiple operating platforms.

As we move into 2016, we expect the Australian residential mortgage and auto lending businesses will remain the engine for Pepper's continuing strong lending growth.

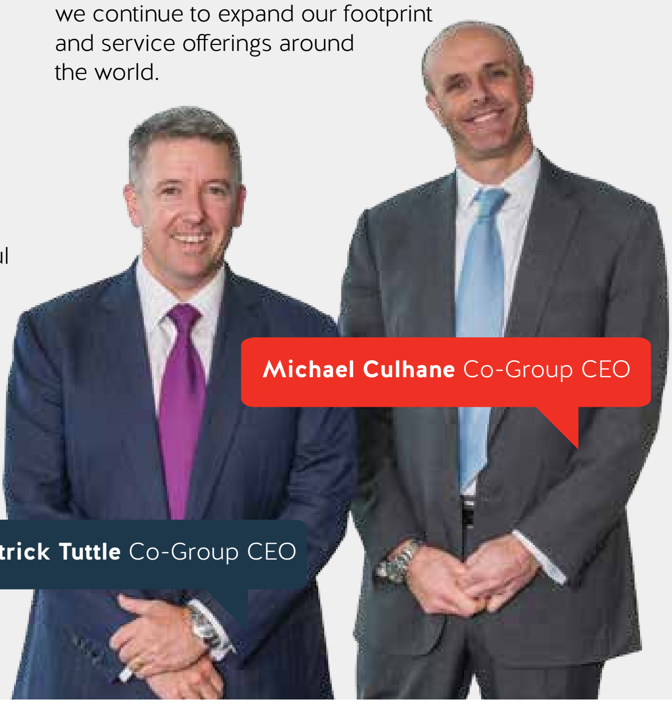
This growth in Australia will be supported by increasing lending volumes in South Korea, Spain, and to a lesser extent the United Kingdom and Ireland, where we have recently commenced residential mortgage lending. Last, but certainly not least, the Prime Credit business continues to capture around a 7% market share of all unsecured personal loan originations in Hong Kong. As a result, Prime Credit has made, and will continue to make, a meaningful contribution to Pepper's overall profitability.

Europe continues to present opportunities for growth in Servicing AUM although the mix and type of opportunities is changing by geographic market as each country re-emerges from the dysfunction experienced during the Global Financial Crisis at differing times.

We remain optimistic and believe that as they have in Ireland, the major banks of other European countries will come under greater pressure to divest or outsource more and more of the servicing on their non-performing loan portfolios.

On the acquisition front, we are involved in a number of partnership and platform acquisition negotiations in Europe which, should they be consummated, will be earnings accretive in 2016. We maintain a very disciplined approach to acquisitions and while we consider many opportunities, we only pursue those we believe can deliver strong risk-adjusted returns for our shareholders.

As you can see, 2015 has been a very productive and exciting year for Pepper. We are genuinely grateful to our employees across the globe for their ongoing commitment to the business. Transitioning to a public company is just the beginning of the next phase of the Pepper story as we continue to expand our footprint and service offerings around the world.



Michael Culhane Co-Group CEO

Patrick Tuttle Co-Group CEO

Our adventure.
So far ...

DECEMBER 2000
An opportunity to take advantage of a ridiculously underserved segment of the mortgage market is identified. **Pepper is born.**

SEPTEMBER 2004
Pepper issues the first of many non-conforming mortgage Term Securitisations for $250 million.

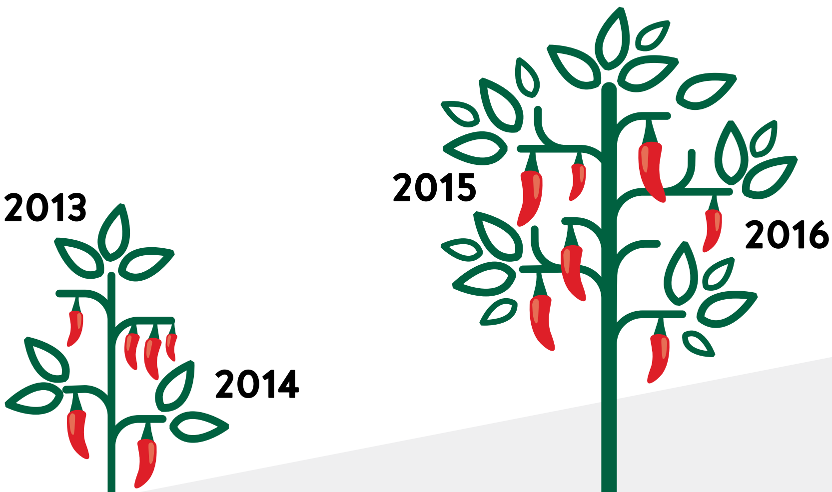
OCTOBER 2006
Pepper is acquired by Oakwood Global Finance SCA.

OCTOBER 2008
Pepper dodges a bullet. During the Global Financial Crisis, Pepper was able to call all Term Securitisations at their first call date and successfully re-financed senior lenders.

JUNE 2010
Pepper charts its own course. As a result of the Global Financial Crisis, its major shareholder Merrill Lynch is bought by Bank of America – opening the door for the current management, backed by successful private equity investors, led by Seumas Dawes, to buy back Pepper.

AUGUST 2011
Sailing with a tailwind. Pepper purchases GE Capital's Home Lending business in Australia and NZ for $5 billion.

SEPTEMBER 2012
New lands to conquer. Pepper acquires GE Capital's Irish Mortgage business and servicing platform.



FEBRUARY 2013
Pepper acquires Celeris Group's Consumer Loan business in Spain.

SEPTEMBER 2013
Pepper acquires Oakwood servicing platform in the UK.

OCTOBER 2013
Pepper acquires Evergreen Savings Bank in South Korea.

MAY 2014
Pepper Spain commences lending.

SEPTEMBER 2014
Pepper Ireland migrates a series of portfolios, lifting total assets under management to north of €10.5 billion.

OCTOBER 2014
Pepper settles over $1 billion in Australian residential mortgages.
Pepper Asset Finance commences lending.

FEBRUARY 2015
Pepper is awarded Australia's Best Specialist Lender for 3rd consecutive year.

APRIL 2015
Pepper UK commences lending.

MAY 2015
Positioning for the future, Pepper acquires 12% equity interest in Prime Credit in Hong Kong and China, in collaboration with China Travel Service and York Capital.

JULY 2015
Pepper lists on the ASX – raising $145 million to deliver its business strategy and fund future growth.

FEBRUARY 2016
Pepper Ireland commences lending.
Pepper is awarded Australia's Best Specialist Lender for 4th consecutive year.

APRIL 2016
Introduction of new pepper global brand and launch of retail brand peppermoney capturing our range of consumer finance products around the world.

Board of Directors

Mr Seumas Dawes
Chairman and Non-Executive Director

Mr Dawes was appointed to the Board in June 2010.

Mr Dawes is a professional investor, through his own private companies, specialising in distressed and special situations. He invests in private companies as well as listed ones, generally in control positions. In addition to his interest in Pepper, Mr Dawes has various direct investments mainly in Europe and Asia, including in the banking sector. Prior to concentrating on his own investment vehicles, he was a Senior Portfolio Manager and member of the Investment Committee of Ashmore Group Plc, listed on the London Stock Exchange.

Earlier in his career, Mr Dawes was a credit and derivatives trader with various international investment banks. Mr Dawes also spent three years as an adviser to the then Treasurer of Australia (later Prime Minister), the Hon PJ Keating.

Special Responsibilities

Chairman of the Board

Chair – Remuneration and Nomination Committee

Michael Culhane
Co-Group Chief Executive Officer and Executive Director

Michael Culhane was appointed Co-Group CEO in 2013.

Mr Culhane takes responsibility for acquisitions and the more transactional businesses within the Group such as Pepper's CRE advisory business.

Mr Culhane founded Pepper in 2000. From 2001 to 2008, he chaired the Board as well as founding and running Oakwood Global Finance LLP that grew into a diversified speciality finance business.

In 2006, Mr Culhane organised the sale of Pepper and the wider Oakwood group to Merrill Lynch debt capital markets. From 2006 to 2008, Mr Culhane was the Group CEO of Oakwood that in turn owned Pepper and numerous specialty finance businesses in Europe.

From 2008 to 2010, Mr Culhane and his senior UK team grew Oakwood's UK residential mortgage servicing business that was not owned by Merrill Lynch at the time.

In 2010, Mr Culhane joined with Patrick Tuttle to purchase Pepper back from Merrill Lynch that, by then, had been sold to Bank of America – relocating to Sydney in January 2011.

Prior to founding Pepper, he served as the Executive Chairman of Future Mortgages (a UK-based non-conforming residential mortgage lender) and the Chief Executive Officer of the European subsidiary of FBR, a US-based, NYSE-traded, investment bank.

While at FBR, Mr Culhane worked for 10 years in equity capital markets in both the USA and the UK.

Patrick Tuttle
Co-Group Chief Executive Officer and Executive Director

Patrick Tuttle was appointed Co-Group CEO in 2013.

Patrick is responsible for Pepper's Australian residential mortgage lending, asset finance and specialist loan servicing activities; as well as Pepper's European and Asian lending and loan servicing businesses.

At Pepper he has held the positions of CFO and Treasurer from 2001 to 2007, and CEO from 2007 to 2013, prior to his current role. Patrick has extensive experience in financial services, investment banking and mortgage banking, with particular emphasis on structuring and managing Australian mortgage-backed securities programs, and managing specialty mortgage finance and loan servicing operations.

Prior to Pepper, Mr Tuttle held a number of Director-level roles within Macquarie Bank Limited, principally as Divisional CFO for a number of the Bank's trading businesses.

Mr Tuttle initially joined Price Waterhouse in 1986 as an undergraduate working in both Sydney and London until 1998, attaining the position of Senior Manager.

Mr Tuttle has a Bachelor of Economics (Accounting and Finance) from Macquarie University. He is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Australian Securitisation Forum, Inc. (ASF), a Member of the Australian Institute of Company Directors, a Member of the Ireland Institute of Company Directors, and a Member of the Financial Services Institute of Australasia. Mr Tuttle was a Board member of the ASF from 2004 to 2013, Deputy Chairman from 2008 to 2013, and Co-Chair of the Government and Industry Liaison Committee from 2010 to 2013.

Board of Directors

Mr Des O'Shea
Independent Non-Executive Director

Mr O'Shea was appointed to the Board in March 2014.

In November 2011, Mr O'Shea retired from GE Capital after 14 years during which he held a variety of senior roles including Chief Risk Officer, Chief Commercial Officer and Head of M&A for GE Money in Europe. From 2008 to 2011, he was responsible for GE's investments and partnerships in banks in markets such as Turkey, Thailand, Taiwan, Central America and Columbia, and served on the Boards of these banks. He led a major divestment program for GE Capital Global Banking. From 1981 to 1991, Mr O'Shea worked for Ulster Investment Bank in Corporate Banking and headed its Irish International Financial Services Central (IFSC) activities. He also worked with Woodchester Investments Plc, Cambridge Group and Arthur Andersen.

Mr O'Shea has a Bachelor of Commerce degree from University College Cork and is a Fellow of the Institute of Chartered Accountants in Ireland.

Special Responsibilities

Chair – Audit and Risk Committee

Member – Remuneration and Nomination Committee

Other listed directorships in the last three years:

Ulster Bank Limited (Audit Committee Chair and Risk Committee Member)

Ulster Bank Ireland Limited (Audit Committee Chair and Risk Committee Member)

Byblos Bank SAL (Risk Committee Chair)

Ms Melanie Willis
Independent Non-Executive Director

Ms Willis was appointed to the Board in September 2014.

During the last 10 years, Ms Willis has held non-executive directorships at financial services and accounting company Crowe Horwath, retirement village and aged care operator Aevum Limited, Hydro Tasmania, novated leasing provider Rhodium Asset Solution, Ardent Leisure and Mantra Group.

Until March 2015, she was Chief Executive Officer of NRMA Investments with responsibility for NRMA's commercial businesses, an $800 million investment portfolio and overall group strategy and innovation. She has 15 years, investment banking and structured finance experience with senior executive roles with Deutsche Bank and Bankers Trust Australia.

Ms Willis holds a Bachelor of Economics from the University of Western Australia, a Masters of Law (Tax) from the University of Melbourne and a Company Director Diploma from the Australian Institute of Company Directors.

Ms Willis has completed a leadership course at Harvard Business School, and is a member of Chief Executive Women and the Big Issue Women's Advisory Board.

Ms Willis is also a Fellow of the Australian Institute of Company Directors.

Special Responsibilities

Member – Audit and Risk Committee

Other listed directorships in the last three years:

Crowe Horwath Limited (resigned in October 2014)

Mantra Group (Audit and Risk Committee Chair)

Ardent Leisure Group

Mr Matthew Burlage
Independent Non-Executive Director

Mr Burlage was appointed to the Board in July 2010.

Mr Burlage has spent the last three decades financing and advising Asia's leading corporations, government enterprises and financial institutions particularly in the telecom, media, technology and internet sectors.

In 2000, Mr Burlage co-founded IRG, a boutique financial advisory and investment firm focused on the core growth sectors in Asia. Mr Burlage advises Asian and global corporates, private equity funds, hedge funds and sovereign wealth funds on a range of transactions including mergers, acquisitions, corporate restructurings and debt capital and equity capital financings. Mr Burlage is responsible for the firm's investment strategy and management of its proprietary capital.

Before co-founding IRG, Mr Burlage was a Managing Director and Head of Industry Groups at Lehman Brothers in Hong Kong.

Mr Burlage has an MBA from Harvard Business School and a Bachelor of Arts from Yale University, and he attended the Japanese Language Institute of Sophia University.

Special Responsibilities

Member – Audit and Risk Committee

Member – Remuneration and Nomination Committee

Other listed directorships in the last three years:

Weyland Tech Inc.

What we do

Pepper's lending business

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

Pepper's long-term success as a specialist lender is supported by the following core lending competencies:

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

Pepper's servicing business

Loan servicing involves the management and administration of loans on behalf of other banks and financial institutions. Services provided include customer service, collection of payments, maintenance of payment records and loan balances, and the management of arrears from early stage delinquencies through to foreclosures.

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

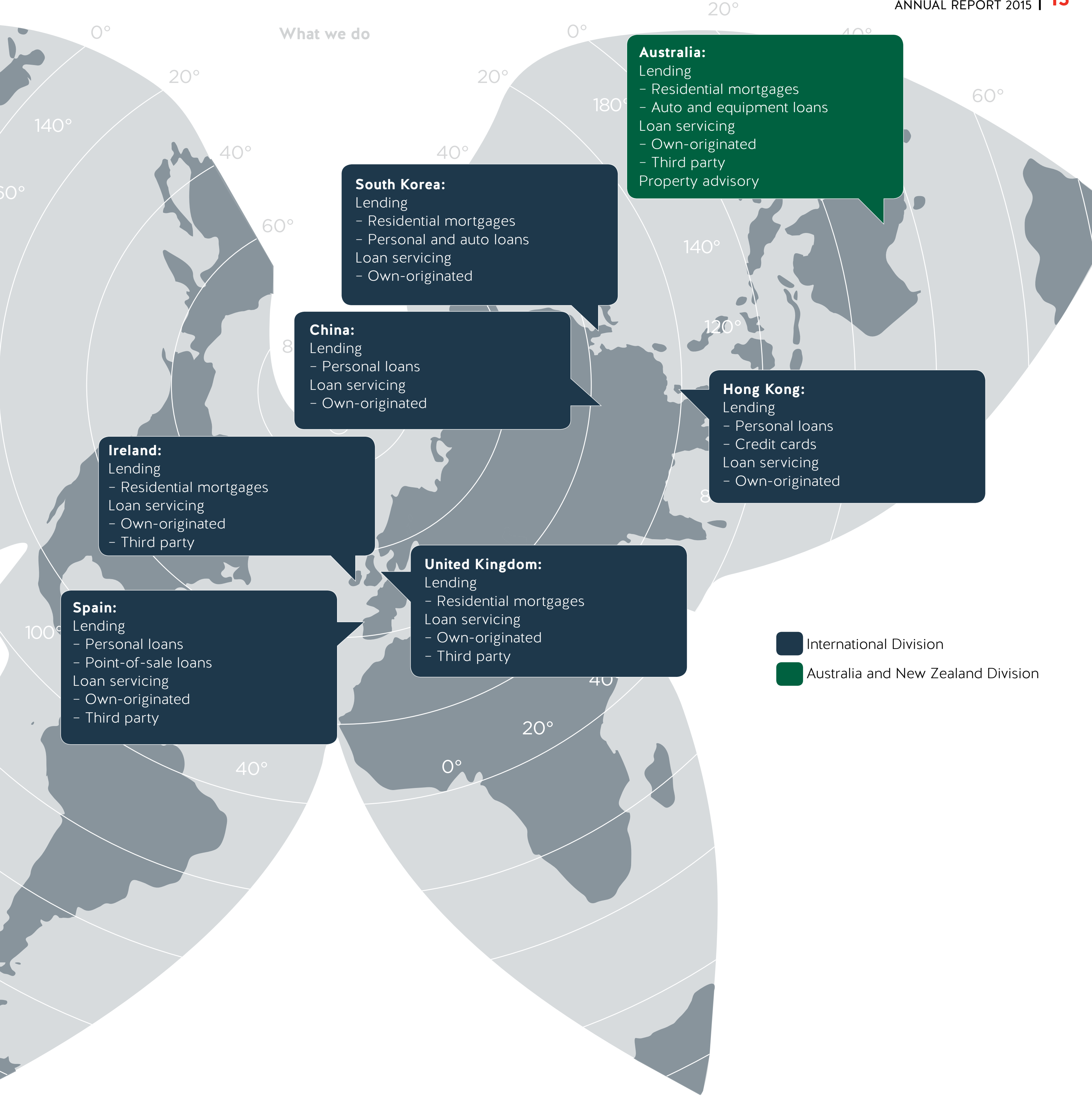
- **Lender's mind-set:** Pepper utilises its lending experience and its proprietary strategies for loan management to service portfolios in a manner that minimises arrears, maximises cash collections and mitigates loan losses.
- **Aligned interests:** Pepper aligns its economic interests with those of its strategic partners, through contracts linking income levels with the underlying performance of portfolios under Pepper's management.
- **Cross border presence:** Given its presence in a number of countries, Pepper is able to share its successful servicing techniques and technologies and leverage its strategic partner relationships.

Pepper Property Group

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

Pepper applies its expertise in the following key product areas:

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



Pepper's total Assets Under Management were $45.5 billion as at 31 December 2015. Of this total, Lending Assets comprised $5.6 billion, and Loan Servicing Assets comprised $39.9 billion.

Pepper in the community

Our People

We understand that our employees are our most important asset because our success depends on them.

We make sure we recruit people that really fit the values and culture of Pepper. Alongside this we use best practice processes to ensure we hire to the skills and competencies required for the roles people will occupy.

We work to create the conditions for people to succeed, making sure our people know what Pepper stands for and the role of their contribution to our vision. Pepper gives responsibility and encourages feedback.

Pepper offers a range of employee benefits that promote flexibility as well as balance. Benefits include parental leave, an employee assistance program, long service awards, a reward and recognition program and a purchased leave program.

Promoting good health and wellbeing amongst our employees lets them get the most out of life and contributes to superior performance within the workplace. Our wellbeing program aims to raise awareness within the workplace about issues that impact on health and wellbeing and promote and encourage participation in health and wellbeing initiatives.

Pepper offers free corporate gym memberships, access to a corporate health cover plan, annual free Flu vaccinations, a delivery of fresh fruit twice a week and lunch time team sporting activities.

Pepper in the Community

At Pepper we aspire to be good corporate citizens by making a meaningful contribution to the communities in which we operate. This includes taking seriously, our responsibilities to our customers, employees and shareholders.

In future it is our intention to formalise the group's community and charitable activities through the adoption of a formal corporate and social responsibility strategy.

Community Involvement Day

All Pepper employees are provided with one day each year to volunteer within the community by assisting a charity of their choice.

Community Activities

Pepper believes it's important to play an active role in supporting the communities where we live and work.

Pepper employees support several charitable causes, and our employees coordinate various initiatives throughout the year, including volunteering and fundraising days to support local groups both here in Australia and overseas.

Some of the worthy beneficiaries include:

Panthers on the Prowl
As a sponsor of this program, Pepper invites secondary students into our offices to gain awareness of different careers and career paths so that they become positive contributors to the community and society as a whole.

Oz Harvest
Co-Group CEO Patrick Tuttle participates annually in the CEO Cook Off Event. He raised over $22,000 for the March 2016 event.

Oasis Youth Support Network
Profits from the vending machines in Pepper offices are donated to this charity which supports disadvantaged and marginalised young people.

Kanlungan sa Er-Ma Ministry Orphanage
Profits from the vending machines in Pepper offices are donated to this charity which cares for disadvantaged children in Manila, Philippines.

Fight on the beaches
Pepper sponsored the 2015 charity ball raising funds for Cure Cancer Australia.

In Ireland Pepper employees supported the **Milford Care Centre** in Castletroy, Limerick, **Clare Haven Services** in Ennis, Co. Clare, **St Annes School** in Ennis, Co. Clare, **Our Lady's Hospice and Care Centre Services** in Blackrock and **Harold's Cross** in Dublin.

Through its major sporting partnerships, Pepper is actively involved in the regular community and charitable activities of the Penrith Panthers, Western Sydney Wanderers, St Kilda Football club, the Shamrock Rovers in Dublin and the Clare Senior Hurling team and supporters club.

FINANCIAL INFORMATION

PEPPER GROUP LIMITED

ABN 55 094 317 665
FOR THE YEAR ENDED 31 DECEMBER 2015

DIRECTORS' REPORT

PEPPER GROUP LIMITED

The Directors of Pepper Group Limited (the Company) submit the annual report on the Company together with its controlled entities (collectively referred to as the Group or Pepper) for the year ended 31 December 2015.

DIRECTORS

The names of the Directors of the Company during the year were:

Mr Seumas Dawes (Chairman and Non-Executive Director)

Experience:

Mr Dawes was appointed to the Board of Pepper Group Limited in June 2010.

Mr Dawes is a professional investor, through his own private companies, specialising in distressed and special situations. He invests in private companies as well as listed ones, generally in control positions. In addition to his interest in Pepper, Mr Dawes has various direct investments mainly in Europe and Asia, including in the banking sector. Prior to concentrating on his own investment vehicles, he was a Senior Portfolio Manager and member of the Investment Committee of Ashmore Group Plc, listed on the London Stock Exchange.

Earlier in his career, Mr Dawes was a credit and derivatives trader with various international investment banks. Mr Dawes also spent three years as an adviser to the then Treasurer of Australia (later Prime Minister), the Hon PJ Keating.

Other listed directorships in the last three years:

None

Interests in shares and options:

Mr Dawes has 75,000 ordinary share options, and interests in 52,618,961 ordinary shares.

Mr Des O'Shea (Non-Executive Director)

Experience:

Mr O'Shea was appointed to the Board of Pepper Group Limited in March 2014.

In November 2011, Mr O'Shea retired from GE Capital after 14 years during which he held a variety of senior roles including Chief Risk Officer, Chief Commercial Officer and Head of M&A for GE Money in Europe which was GE Capital's largest and most successful and profitable business in Europe. From 2008 to 2011, he was responsible for GE's investments and partnerships in banks in high growth emerging markets such as Turkey, Thailand, Taiwan, Central America and Columbia and served on the boards of these banks. He also led a major divestment program for GE Capital Global Banking. From 1981 to 1991, Mr O'Shea worked for Ulster Investment Bank in Corporate Banking and headed up its Irish International Financial Services Central (IFSC) activities. He also worked with Woodchester Investments Plc, Cambridge Group and Arthur Andersen. Mr O'Shea has a Bachelor of Commerce degree from University College Cork and is a Fellow of the Institute of Chartered Accountants in Ireland.

Mr O'Shea is also a Non-executive director of Ulster Bank Limited and Ulster Bank Ireland Limited (where he is Chair of the Audit Committee in both banks and a member of the Risk Committees), and Byblos Bank in Lebanon (where he is chair of the Risk Committee).

Other listed directorships in the last three years:

None

Interests in shares and options:

Mr O'Shea has 75,000 ordinary share options, and interests in 76,924 ordinary shares.

Ms Melanie Willis (Non-Executive Director)

Experience:

Ms Willis was appointed to the Board of Pepper Group Limited in September 2014.

Melanie Willis has extensive strategic, commercial and financial skills in executive and Non-executive roles in a wide range of industries and has had significant board-level exposure to international operations and global businesses.

During the last 10 years, Ms Willis has held Non-executive Directorship roles at ASX listed financial services and accounting company Crowe Horwath, retirement village and aged care operator Aevum Limited (including Audit Committee Chair), Hydro Tasmania (including Audit and Risk Committee Member), and novated leasing provider, Rhodium Asset Solution, Ardent Leisure and Mantra Group.

Until March 2015, she was Chief Executive Officer of NRMA Investments where she was responsible for NRMA's commercial businesses (Thrifty, NRMA travel, Holiday Parks and Travelodge) $800 million investment portfolio and overall group strategy and innovation. She also has 15 years investment banking and structured finance experience with senior executive roles with Deutsche Bank (Director) and Bankers Trust Australia (Vice President).

Ms Willis holds a Bachelor of Economics from The University of Western Australia, a Masters of Law (Tax) from the University of Melbourne and a Company Director Diploma from the Australian Institute of Company Directors.

In addition, Ms Willis has completed a leadership course at Harvard Business School, is a member of Chief Executive Women and the Big Issue Women's Advisory Board. Ms Willis is also a Fellow of the Australian Institute of Company Directors.

Ms Willis is also a Non-executive director of Mantra Group (where she chairs the Audit and Risk Committee), and Ardent Leisure.

Other listed directorships in the last three years:

Crowe Horwath Limited (resigned in October 2014), Mantra Group and Ardent Leisure Group (appointed in July 2015).

Interests in shares and options:

Ms Willis has 75,000 ordinary share options, and interests in 38,462 ordinary shares.

Mr Matthew Burlage (Non-Executive Director)

Experience:

Mr Burlage was appointed to the Board of Pepper Group Limited in July 2010.

Mr Burlage has spent the last three decades financing and advising Asia's leading corporations, government enterprises and financial institutions and has been involved in some of the most ground-breaking transactions in Asia, particularly in the telecom, media, technology and internet sectors.

In 2000, Mr Burlage co-founded IRG, a boutique financial advisory and investment firm focused on the core growth sectors in Asia. Mr Burlage advises Asian and global corporates, private equity funds, hedge funds and sovereign wealth funds on a range of transactions including mergers, acquisitions, corporate restructurings, and debt capital and equity capital financings. Mr Burlage is also responsible for the firm's investment strategy and management of its proprietary capital.

Before co-founding IRG, Mr Burlage was a Managing Director and Head of Industry Groups at Lehman Brothers in Hong Kong where he created the first and largest dedicated TMT industry group at an investment bank in Asia. He has been an adviser to Asia's leading companies in Japan, Singapore, Hong Kong, Indonesia, China, Thailand, Taiwan, and South Korea, as well as to global telecommunications operators in Europe and the US.

Mr Burlage has a MBA from Harvard Business School and a Bachelor of Arts from Yale University, and attended the Japanese Language Institute of Sophia University.

Other listed directorships in the last three years:

Weyland Tech Inc. (U.S.)

Interests in shares and options:

Mr Burlage has 75,000 ordinary share options.

Michael Culhane (Co-Group Chief Executive Officer and Director)

Experience:

Michael Culhane founded Pepper in 2000. From 2001 to 2008, Mr Culhane chaired the board as well as founding and running Oakwood Global Finance LLP that grew into a diversified speciality finance business.

Mr Culhane is Co-Group CEO along with Patrick Tuttle and co-chairs with Mr Tuttle the Pepper Group Global Executive Committee. Mr Culhane takes responsibility for acquisitions and the more transactional businesses within the Group such as Pepper's CRE advisory business. The internal mergers and acquisitions team also report to Mr Culhane.

In 2006, Mr Culhane organised the sale of Pepper and the wider Oakwood group of businesses to Merrill Lynch debt capital markets. From 2006 to 2008, Mr Culhane was the Group CEO of Oakwood that in turn owned Pepper and numerous specialty finance businesses in Europe.

As the financial crisis hit in 2008, Mr Culhane and his senior United Kingdom team grew Oakwood's United Kingdom residential mortgage servicing business that was not owned by Merrill Lynch at the time.

In 2010, Mr Culhane teamed up with Patrick Tuttle to organise the purchase of Pepper back from Merrill Lynch that, by then, had been sold to Bank of America. In January 2011, Mr Culhane relocated from London to Sydney to run Pepper along with Patrick Tuttle.

Prior to founding Pepper, Mr Culhane served as the Executive Chairman of Future Mortgages (a United Kingdom based non-conforming residential mortgage lender that was sold to Citigroup in 2001) and the Chief Executive Officer of the European subsidiary of FBR, a United States based, NYSE traded, investment bank. While at FBR, Mr Culhane worked for 10 years in equity capital markets, 4 years in Washington DC in the US and 6 years in London in the United Kingdom.

Other listed directorships in the last three years:

None

Interests in shares and options:

Mr Culhane has 96,743 performance rights, 209,520 loan shares, and interests in 8,263,500 ordinary shares.

Patrick Tuttle (Co-Group Chief Executive Officer and Director)

Experience:

Patrick Tuttle is CEO (appointed in December 2007) for Pepper's Australian operating business, comprising its residential mortgage lending, asset finance and specialist loan servicing activities, and the country heads responsible for Pepper's European and Asian lending and loan servicing businesses also report directly to him in his capacity as Co-Group CEO. He is Chairman of Pepper's Australian Executive Committee and Co-Chairman (with Mr Culhane) of Pepper Group's Global Executive Committee.

Mr Tuttle has extensive experience in financial services, investment banking and mortgage banking, with a particular emphasis on structuring and managing Australian mortgage-backed securities programs, and managing specialty mortgage finance and loan servicing operations. Prior to joining Pepper in 2001 as CFO and Treasurer, Mr Tuttle held a number of director-level roles within Macquarie Bank Limited, principally as Divisional CFO for a number of the Bank's trading businesses, including Project and Structured Finance, Corporate Finance, Banking and Property Group, Macquarie Capital, and the Direct Investments Group. Mr Tuttle initially joined Price Waterhouse in 1986 as an undergraduate and worked for the firm's financial services practices in both Sydney and London until 1998, attaining the position of Senior Manager.

DIRECTORS' REPORT (CONT.)

Mr Tuttle has a Bachelor of Economics (Accounting and Finance) degree from Macquarie University. He is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Australian Securitisation Forum, Inc. (ASF), a Member of the Australian Institute of Company Directors, a Member of the Ireland Institute of Company Directors, and a Member of the Financial Services Institute of Australasia. Mr Tuttle was also a board Member of the ASF from 2004 to 2013, Deputy Chairman of the ASF from 2008 to 2013, and Co-Chair of the ASF Government and Industry Liaison Committee from 2010 to 2013.

Other listed directorships in the last three years:

None

Interests in shares and options:

Mr Tuttle has 96,743 performance rights, 209,520 loan shares, and interests in 7,362,000 ordinary shares.

OTHER DIRECTORS DURING THE PERIOD

Cameron Small and David Holmes (alternate director to Patrick Tuttle) both resigned from the Board of Directors in June 2015.

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.

DIRECTORS' MEETINGS

The number of meetings of the company's Board of Directors and of each board committee held during the year ended 31 December 2015, and the number of meetings attended by each director were:

	Full meetings of Directors		Audit and Risk Committee meetings		Remuneration Committee meetings	
Director	**held[1]**	**attended**	**held[1]**	**attended**	**held[1]**	**attended**
Seumas Dawes[2]	10	10	*	*	4	4
Des O'Shea[3]	10	10	6	6	-	-
Melanie Willis	10	10	6	6	*	*
Matthew Burlage	10	9	3	3	4	4
Patrick Tuttle	10	10	3	3	*	*
Michael Culhane	10	9	3	3	*	*

Notes

1 – Number of meetings held during the time the director held office or was a member of the committee during the year.

2 – Seumas Dawes is the chairman of the Board of Directors and the Remuneration Committee.

3 – Des O'Shea is the chairman of the Audit and Risk Committee.

* – Not a member of the relevant committee.

COMPANY SECRETARY

John Williams held the position of company secretary of Pepper Group Limited at the end of the financial year, having been appointed in May 2014. He joined Pepper Group Limited as General Counsel in February 2012. Previously he was counsel for GE Capital and a solicitor with Mallesons Stephen Jaques (now King and Wood Mallesons). John holds a Bachelor of Arts and a Bachelor of Laws (Hons I) from the University of Sydney.

OPERATING AND FINANCIAL REVIEW

The board presents its 2015 Operating and Financial Review, in order to provide shareholders with an overview of the Group's operations, financial position, business strategies and prospects for future financial years. The review complements the financial report.

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 undeserved by traditional bank 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, and Hong Kong and China where it acquired a 12% equity interest in Prime Credit Holdings Ltd (Prime Credit) which occurred on 6 May 2015.

PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS (CONT.)

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 as well as commercial real estate backed 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 income generated at multiple points across the customer relationship and includes income from loan origination fees, lending income, servicing and loan administration fees, performance fees and advisory income.

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

DIRECTORS' REPORT (CONT.)

- 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 income and profitability over coming years:

1. Organic lending growth

Australia and New Zealand (ANZ) Division: Pepper is well-positioned to continue to build upon strong volume growth 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, particularly direct, and further investment in Pepper's brand positioning; and
- ongoing new product development initiatives such as Pepper Asset Finance.

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

1 – Refer to note 6 for the definitions of the Group's business segments.

FINANCIAL REVIEW

Income statement

Statutory income statement	**Year ended 31 December 2015 $'000**	Year ended 31 December 2014 $'000
Total revenue	**527,729**	423,381
Share of results from associates	**3,143**	–
Total expenses	**(520,675)**	(378,645)
Profit before tax	**10,197**	44,736
Earning per share – basic (cents per share)	**3**	37

The Group recorded a statutory profit before tax for the year of $10.2m, a decrease of 77% year on year (2014: $44.7m).

Total statutory revenue increased $104m (25%) to $528m, driven by:

- a $54m increase in interest revenue in the Australian Mortgage and Asset Finance businesses, Spanish lending business, and Pepper South Korea, reflecting the organic growth of these underlying businesses; and
- a $58m increase in fee revenue in the UK and Irish servicing businesses, reflecting the improved performance of these businesses.

Total statutory expenses increased $142m (38%) to $521m, driven by:

- a $84m increase in employee benefits expenses, reflecting the ongoing investment into the growth of the Group's core businesses together with the recognition of share-based payment expenses of $33m accelerated as part of the IPO process;
- a $20m increase in borrowing costs, reflecting growth in the Group's lending businesses; and
- a $16m increase in net loan loss expenses in line with the growth of underlying portfolios in Australia, South Korea and Spain, and entry into unsecured higher margin business opportunities in South Korea and Spain.

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 and into mortgage lending in the UK.

FINANCIAL REVIEW (CONT.)

Balance sheet

Statutory balance sheet extract	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Loans and advances	**5,652,260**	3,963,660
Investment in associates	**94,075**	–
Total assets	**6,546,375**	4,867,709

The Group's loans and advances grew by $1.7bn (43%) underpinning its core profitability, driven by origination growth in Australia, South Korea and Spain.

In May 2015, the Group acquired a 12% interest in Prime Credit Holdings Ltd, a consumer finance business in Hong Kong and China from Standard Chartered Bank. This investment has been classified as an investment in an associate due to the Group's significant involvement in the financial and operating policy decisions of Prime Credit Holdings Ltd.

Equity

Total equity attributable to the owners of the company	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Issued capital	**296,065**	143,517
Retained earnings	**118,431**	116,876
Foreign currency translation reserve	**18,839**	7,547
Other equity and reserves	**(23,961)**	(19,726)
Total equity	**409,374**	248,214

In July 2015, the Group embarked on an Initial Public Offering (IPO) and listed on the ASX under the ASX ticker code: PEP. The IPO comprised an offer of 53.2 million new shares, and the sale of 2.3 million existing shares, at an offer price of $2.60 per share, increasing the Group's issued capital by $130m after transaction costs.

Total other comprehensive income for the year increased 370% compared with the prior period to $10m (31 December 2014: $2.1m) driven by an $11.3m net movement in the foreign currency translation reserve from translating the Group's foreign operations, caused by the weakening of the Australian dollar against the Hong Kong dollar and Pound Sterling. This increase was offset by a net movement of $1.2m in the cash flow hedge reserve (31 December 2014: $0.4m net decrease).

Significant changes in state of affairs

The most significant change to the Group's state of affairs recorded during the year was the IPO that took place on 31 July 2015, when Pepper Group Limited (the Company), listed on the ASX. Please refer to the general information section in note 1.

Additionally noted in the second paragraph of the principal activities and review of operations section of this report, the acquisition of a 12% interest in the Prime Credit Group, and the entry into the Hong Kong and Chinese markets are considered significant.

There were no other significant changes in the state of affairs of the Group during the financial year.

DIRECTORS' REPORT (CONT.)

Shares under option

Unissued ordinary shares under option at the date of this report are as follows:

Option Series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Tranche 1 – Non-executive options	100,000	01/07/2015	01/07/2022	$2.60	$0.32
Tranche 2 – Non-executive options	100,000	01/07/2015	01/07/2023	$2.60	$0.44
Tranche 3 – Non-executive options	100,000	01/07/2015	01/07/2024	$2.60	$0.53

Events since the end of the financial year

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Dividends

The Directors have approved a final dividend in respect of the financial year ended 31 December 2015 of 3 cents per ordinary share which will be paid in April 2016 to shareholders on the share register on 24 February 2016.

In February 2015, the Company paid a fully franked dividend of $1.901m (31 December 2014: $1.901m) to A class shareholders.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group is important.

Details of the amounts paid or payable to the auditor (Deloitte Touche Tohmatsu) for audit and non-audit services provided during the year are set out in note 28.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

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 38.

Rounding

The amounts contained in the Directors' 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.

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

On behalf of the Directors

Seumas Dawes
Chairman and Non-Executive Director
26 February 2016

Patrick Tuttle
Co-Group Chief Executive Officer and Director
26 February 2016

REMUNERATION REPORT

LETTER FROM THE CHAIRMAN

Dear Shareholders,

On behalf of the Board, I am pleased to present you with Pepper's first Remuneration Report.

This has been an exciting and successful year for Pepper, which included listing on the Australian Securities Exchange on 31 July 2015.

The Board has adopted and implemented a remuneration structure that aligns with the Group's strategy and is appropriate for Pepper's new listed environment. There are three main components to the Company's remuneration structure:

1. a fixed remuneration component that comprises base salary and compulsory employer superannuation contributions;
2. an 'at risk' cash short term incentive (STI), which is subject to both individual and Group financial and non-financial performance measures. Payment of 20% of the cash award is deferred for 3 years; and
3. an 'at risk' long term incentive (LTI) award of performance rights and loan shares which is subject to net profit after tax and return on equity performance conditions.

The Board is committed to ensuring that remuneration outcomes link to Company performance and the long term interests of shareholders. The Board considers that the current remuneration arrangements achieve this goal and these arrangements will continue to apply in FY2016.

I am pleased to report that for FY2015, Pepper achieved both its NPAT target of $47 million and ROAE target of 20%. Based off this strong result, the CEO's each received 92% of their maximum "stretch" STI award, and the CFO received 90% of his maximum "stretch" STI award. As noted above, a portion of this award will be deferred for 3 years.

No LTI tranches were due to vest in FY2015 and as a result there has been no vesting of LTI.

On behalf of the Board, I invite you to read the 2015 Remuneration Report and welcome any feedback that you may have.

Seumas Dawes
Chairman and Non-Executive Director
26 February 2016

REMUNERATION REPORT (CONT.)

A. INTRODUCTION

What does this Report cover?

The directors of Pepper Group Limited present the Remuneration Report for the Company for the full year ended 31 December 2015. This Remuneration Report forms part of the Directors Report and has been audited in accordance with the *Corporations Act 2001*.

B. REMUNERATION ESSENTIALS

Who does this Report cover?

This Report sets out the remuneration arrangements for the Pepper Group's key management personnel (KMP). The following table sets out the Pepper Group's KMP for FY2015.

For the remainder of this Remuneration Report, the KMP are referred to as either senior executives or Non-executive Directors.

Non-executive Directors

Name	Position
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

Senior executives

Name	Position
Michael Culhane	Co-Group Chief Executive Officer and Director[1]
Patrick Tuttle	Co-Group Chief Executive Officer and Director[1]
Cameron Small	Group Chief Financial Officer[2] (CFO)

Notes

1 – Throughout this Remuneration Report, Michael Culhane and Patrick Tuttle are referred to as CEOs.

2 – Cameron Small also held the position of director until 4 June 2015.

All Non-executive Directors and senior executives have held their positions for the whole of FY2015.

Remuneration snapshot

The following table provides a summary of the actual remuneration received by the CEOs and CFO in respect of FY2015. This is a voluntary disclosure and differs from the statutory remuneration table on page 32, which has been prepared in accordance with the requirements of the Australian Accounting Standards. The table below is unaudited and includes remuneration actually received in respect of FY2015.

			LTI		
	Total fixed remuneration[1]	Bonuses[2]	Loan Shares vested during the year	Performance rights vested during the year	Total
Michael Culhane	$822,704	$690,000	Nil	Nil	$1,512,704
Patrick Tuttle	$822,704	$690,000	Nil	Nil	$1,512,704
Cameron Small	$426,418	$288,000	Nil	Nil	$714,418
Total	**$2,071,826**	**$1,668,000**	**Nil**	**Nil**	**$3,739,826**

Notes

1 – Total fixed remuneration includes base salary and compulsory employer superannuation contributions.

2 – This reflects the STI amounts awarded to the CEOs and CFO in respect of FY2015 but does not include any amount of the FY2015 award that has been deferred.

B. REMUNERATION ESSENTIALS (CONT.)

Remuneration governance and framework

Role of the Board and Remuneration and Nomination Committee

The Board is responsible for establishing, and overseeing the implementation of, the Company's remuneration structure and ensuring that it is competitive and appropriate for the Company's circumstances and performance, and aligned with the long-term interests of Pepper and its shareholders.

The Remuneration and Nomination Committee has been established to assist the Board with these responsibilities. The Remuneration and Nomination Committee is comprised of three Non-executive Directors:

- Seumas Dawes (Chair)
- Matthew Burlage
- Des O'Shea

The role of the Remuneration and Nomination Committee is to review key aspects of Pepper's remuneration structure and arrangements and make recommendations to the Board. The Committee reviews and recommends:

- arrangements for the senior executives (including annual remuneration and participation in incentive plans);
- major changes and developments in the Company's remuneration, recruitment, retention and termination policies and procedures for senior management;
- major changes and developments to the Company's equity incentive plans; and
- remuneration arrangements for Non-executive Directors.

Use of remuneration consultants and other advisors

The Remuneration and Nomination Committee sought advice from external advisors during the process of developing Pepper's remuneration framework. The Committee intends to continue to obtain external independent advice when required, and will use it to guide and inform their considered decision-making.

During FY2015, the Remuneration and Nomination Committee engaged remuneration specialists, Egan and Associates to conduct a review and provide advice on the remuneration structure for KMP.

Under the terms of the engagement with Egan and Associates, 'remuneration recommendations' were provided as defined under the *Corporations Act 2001* and the consultant was paid $71,379 (including GST) during the reporting period for these services. No other advice was sought from Egan and Associates during the period.

The engagement of Egan and Associates was based on an agreed set of protocols that would be followed by the consultant to enable them to carry out their work, including gathering information and forming recommendations, free from undue influence by members of the KMP to whom the recommendations may relate. Under the engagement, Egan and Associates reported to the Chair of the Remuneration and Nomination Committee.

The Board undertook its own inquiries and review of the processes and procedures followed by Egan and Associates and is satisfied that their remuneration recommendations were made free from undue influence by members of the KMP about whom the recommendations may relate.

Remuneration policy and guiding principles

Executive remuneration

The Board is committed to developing and maintaining a remuneration framework that is competitive and appropriate for the Company's circumstances and performance, and aligned with the long-term interests of Pepper and its shareholders. A robust remuneration and reward framework that supports and encourages safe growth, and drives our people, is critical to the successful execution of our strategy.

In considering executive remuneration, the Board and the Remuneration and Nomination Committee are guided by the following principles:

REMUNERATION PRINCIPLES

Ensure remuneration structures are equitable and aligned with the long-term interests of Pepper and its shareholders and having regard to relevant Company policies	Attract and retain skilled executives	Structure short and long-term incentives that are challenging and linked to the creation of sustainable shareholder returns	Ensure any termination benefits are justified and appropriate

REMUNERATION REPORT (CONT.)

Non-executive Director remuneration

Pepper's remuneration policy for Non-executive Directors aims to ensure that Pepper can attract and retain suitably qualified and experienced Directors having regard to:

- the level of fees paid to Non-executive directors of other comparable Australian companies;
- the size and complexity of Pepper's operations; and
- the responsibilities and work requirements of Board members.

Remuneration mix and components

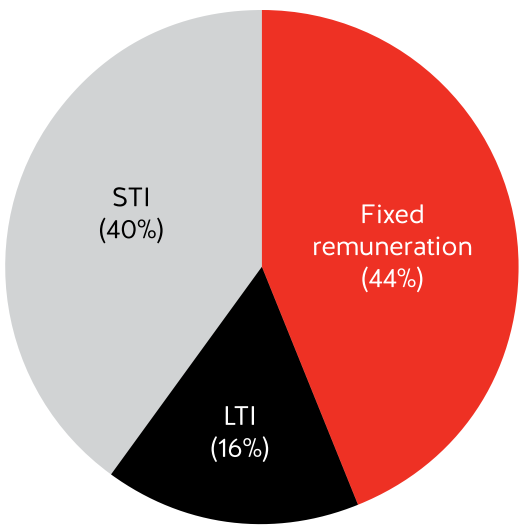
The Company's current compensation arrangements for KMP were disclosed in the Prospectus dated 17 July 2015.

The components of remuneration are structured to create a mix of short-term and long-term incentives that motivate executives to deliver sustained returns. The Company's executive remuneration framework is summarised below.

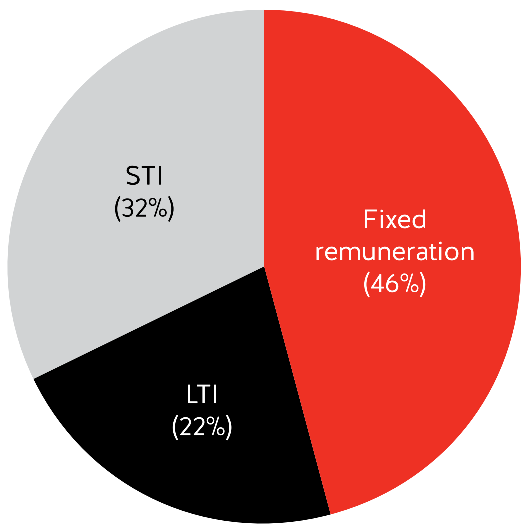
REMUNERATION FRAMEWORK

FIXED	AT RISK	
Total fixed remuneration	**Short-term incentive**	**Long-term incentive**
Reviewed annually	Determined based on targets set by the board, including targets relating to strategic objectives of the Group and personal objectives	The FY2015 LTI grant was made in the form of performance rights and loan shares
Formal benchmarking against peer companies will occur and it is intended that Pepper will position itself at the median	STI opportunity for on target performance is set at 100% of base salary for the COEs and 75% of base salary for the CFO	50% of the FY2015 award is subject to a net profit after tax (NPAT) performance condition and the remaining 50% is subject to a return on equity (ROE) performance condition. Each participant must also be employed by the Group on the relevant vesting date
Influenced by individual performance	Delivered in cash. Payment of 20% of STI awards is deferred for three years	For the CEOs, the LTI opportunity is set at 41.9% of base salary
		For the CFO, the LTI opportunity is set at 52.4% of base salary

The diagrams below illustrate the remuneration mix for the CEOs and CFO for FY2015.



Remuneration mix for CEOs for 2015

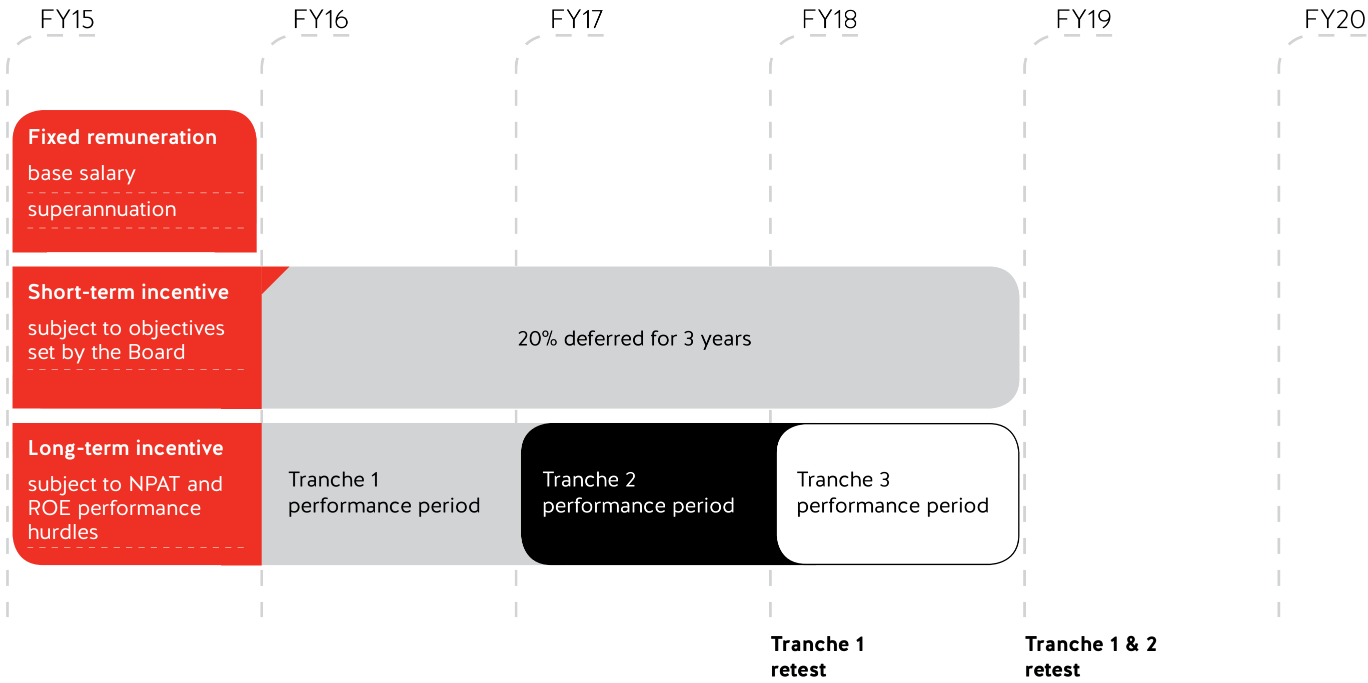


Remuneration mix for CFO for 2015

B. REMUNERATION ESSENTIALS (CONT.)

Remuneration mix and components (cont.)

The diagram below shows timing for delivery of executive remuneration for FY2015.



Company performance for FY2015

The Company measures its financial performance on a number of key measures as outlined in the table below. For FY2015, both the Company's NPAT and ROE targets were met.

The following table shows the Company's financial performance during the reporting period. Comparative numbers for the previous four years are not shown as this is the Company's first remuneration report as a listed entity.

Share Performance ($)		Earnings Performance			
Opening Share price (A$)[1]	Closing Share price (A$)	EPS ($)	NPAT ($M)	Adjusted NPAT ($M)	3 yr Ave ROE (%)
2.60	3.50	0.03	3.4	48.6	21.32

Note

1 – The opening share price on 31 July 2015, the date of listing on the Australian Securities Exchange.

C. EXECUTIVE REMUNERATION IN DETAIL

Details of components of executive remuneration

Fixed remuneration

The remuneration of all senior executives includes a fixed component comprised of base salary and employer superannuation contributions.

Fixed remuneration is regularly reviewed by the Remuneration and Nomination Committee with reference to each senior executive's individual performance and relevant comparative compensation in the market.

Benchmarking of fixed remuneration of the senior executives was conducted during FY2015 against peer companies. Fixed remuneration for senior executives is market-aligned to similar roles in companies of a comparable size, complexity and scale to Pepper. Fixed remuneration is generally set at market median levels.

REMUNERATION REPORT (CONT.)

Short term incentive

Set out below is an explanation of the terms and conditions applying to the STI arrangements for the senior executives in FY2015.

Overview of the STI plan	The STI plan is the 'at-risk' cash based component of executive remuneration which is subject to the satisfaction of performance conditions.
Participation	The CEOs, CFO and other members of senior management are eligible to participate in the STI plan.
Performance period	1 January 2015 to 31 December 2015
STI opportunity	The STI opportunities of the KMP are set out below:

	Level of performance		
	Threshold	**Target**	**Outstanding/stretch**
Michael Culhane	75% of base salary	100% of base salary	125% of base salary
Patrick Tuttle	75% of base salary	100% of base salary	125% of base salary
Cameron Small	50% of base salary	75% of base salary	100% of base salary

If performance is assessed as below acceptable, no STI award will be paid.

Performance conditions	Both financial and non-financial performance conditions apply to STI awards. 40% of the STI award relates to the achievement of financial targets based on the Group's financial results (including 3 year average ROAE and NPAT), and 60% is based on achievement of Divisional and Personal KPI's. The financial targets were set in accordance with the Group's financial strategy for FY2015. Divisional KPI's include cost, volume and reporting targets aligned to the Group's financial strategy whilst Personal KPI's relate to leadership, risk and financial metrics. A combination of financial and non-financial performance conditions have been chosen because the Remuneration and Nomination Committee believes that there should be a balance between financial measures and more strategic non-financial measures which in the medium to longer term will ultimately drive future growth and return for shareholders.
Measurement of performance conditions	Following the end of the financial year, the Remuneration and Nomination Committee assesses the performance of the CEOs and CFO against the performance conditions set by the Board and determines the actual level of award for the KMP for FY2015. Performance against the relevant performance conditions is assessed annually as part of the broader performance review process for each individual. The financial KPIs are based on the Group's audited financial statements. The use of financial statements ensures the integrity of the measure and alignment with the true financial performance of the Company. Non-financial KPIs are assessed quantitatively where possible. Where quantitative assessment is not possible, qualitative performance appraisals are undertaken by the Remuneration and Nomination Committee. For the purpose of testing the achievement of the ROAE hurdle, NPAT will be adjusted NPAT (being, net profit after tax adding back non-cash amortisation of finite life intangible assets recognised following acquisitions undertaken by the Group), but will also be adjusted for NPAT arising from new equity raised for acquisitions. For the FY2015 award, NPAT will be calculated in the same manner as pro forma forecast NPAT (subject to any adjustment for equity raised for acquisitions, if relevant) as set out in section 3 of the Prospectus.
Delivery of STI awards	STI awards will be paid in cash. 80% of each STI award is paid shortly after the release of the audited results for FY2015. The remaining 20% will be deferred for a period of 3 years, subject to a continuous service condition.
Treatment on cessation of employment	If a member of KMP ceases employment with the Group before STI performance conditions are achieved, any entitlement to an STI bonus for that year will be forfeited unless the Board determines otherwise. If a member of KMP ceases employment before the end of the deferral period in respect of an STI award, any entitlement to deferred STI will be forfeited unless the Board determines otherwise.

Percentage of STI paid and forfeited for senior executives for FY2015

The table below details the STI awards received by senior executives for FY2015, as well as the percentage of the maximum that was awarded and forfeited.

Senior executives	Target STI opportunity	Outstanding/ Stretch STI opportunity	Actual STI awarded ($)[1]	Actual STI awarded as % of maximum STI	% of maximum STI award forfeited
Michael Culhane	$750,000	$937,500	$862,500	92%	8%
Patrick Tuttle	$750,000	$937,500	$862,500	92%	8%
Cameron Small	$300,000	$400,000	$360,000	90%	10%

Note

1 – Payment of 20% of this amount will be deferred until February 2019.

C. EXECUTIVE REMUNERATION IN DETAIL (CONT.)

Long term incentive

Set out below is an explanation of the terms and conditions applying to the LTI awards for senior executives in FY2015.

Overview of the LTI plan	The LTI plan is the 'at-risk' equity component of executive remuneration which is subject to the satisfaction of long term performance conditions.
Participation	The CEOs, CFO and other members of senior management are eligible to participate in the LTI plan.
Instrument	For FY2015, awards were delivered using a combination of Performance Rights and a loan to acquire Loan Shares.
Performance Rights	Performance Rights are rights to receive a share in the Company. Upon vesting, each performance right entitles the senior executive to one share. Performance Rights are granted for nil consideration and no amount is payable on vesting.
Loan and Loan Shares	Participants are provided with a limited recourse loan from the Company for the sole purpose of subscribing for Loan Shares. Loan Shares are shares in the Company which are held on trust for the participants subject to the satisfaction of performance conditions and repayment of the loan. Loans are interest free and have a term of seven years. Any Loan Shares which vest will continue to be held on trust until the loan is repaid in full or the loan period expires.
Performance period	FY2015 LTI awards are divided into three equal tranches. The relevant performance periods are as follows: • Tranche 1: 1 January 2016 to 31 December 2016 • Tranche 2: 1 January 2017 to 31 December 2017 • Tranche 3: 1 January 2018 to 31 December 2018 The awards will be subject to retesting as explained below.

Performance conditions

In order for any of the Performance Rights or the Loan Shares to vest, certain conditions must be met.

Service condition

Each participant must be employed by the Group on the relevant vesting date. The vesting date is in April after the end of each performance period for each tranche.

NPAT and ROE conditions

Each grant of Performance Rights, Options and Loan Shares (as appropriate) (LTI Awards) under the LTI Scheme will vest in three equal tranches (each a Tranche). For each of the Tranches:

(1) 50% of the LTI Awards are subject to an NPAT performance condition (NPAT Vesting Entitlement); and

(2) 50% of the LTI Awards are subject to a ROE performance condition (ROE Vesting Entitlement),

each a Vesting Entitlement.

For Tranche 1 of each of the 2015 and 2016 LTI Awards only, 100% of the NPAT Vesting Entitlement will occur on achievement of a 25% increase, or greater, in NPAT for FY2016 relative to FY2015. If the increase in NPAT is less than 25%, none of the NPAT Vesting Entitlement will occur.

For Tranches 2 and 3 of the 2015 and 2016 LTI Awards and Tranches 1, 2 and 3 of any subsequent grants of LTI Awards, the NPAT Vesting Entitlement is determined as follows:

NPAT performance condition (percentage increase on prior year NPAT)	% of NPAT Vesting Entitlement that will vest
Less than 15%	Nil
15% – 17.49%	30% + 0.08% for each basis point in excess of 15% up to 17.49% (rounded to the nearest whole number)
17.5% – 19.99%	65% + 0.08% for each basis point in excess of 17.5% up to 19.99% (rounded to the nearest whole number)
20% or greater	100%

For all Tranches, the ROE Vesting Entitlement is determined as follows:

ROE performance condition	% of ROE Vesting Entitlement that will vest
Less than 12%	Nil
12% – 15.99%	30% + 0.05% for each basis point in excess of 12% up to 15.59% (rounded to the nearest whole number)
16% – 19.99%	65% + 0.05% for each basis point in excess of 16% up to 19.99% (rounded to the nearest whole number)
20% or greater	100%

Rationale for the performance conditions

The performance conditions were chosen to align the interest of the Senior Executives with the Group's long term strategy and to ensure retention of key senior management within the business.

REMUNERATION REPORT (CONT.)

Measurement and testing of performance conditions	At the relevant test date for a tranche, the Remuneration and Nomination Committee will determine the NPAT and ROE for the relevant period and assess whether the NPAT and ROE performance conditions have been meet. NPAT for this purpose will be adjusted NPAT (being, net profit after tax adding back non-cash amortisation of finite life intangible assets recognised following acquisitions undertaken by the Group), but will also be adjusted for NPAT arising from new equity raised for acquisitions. For the FY2015 award, NPAT will be calculated in the same manner as pro forma forecast NPAT (subject to any adjustment for equity raised for acquisitions, if relevant) as set out in section 3 of the Prospectus. ROE for this purpose is NPAT divided by average shareholder equity adjusted for dividends paid and new equity raised for acquisitions. For the purpose of testing the achievement of the NPAT hurdle, financial results are extracted by reference to the Company's audited financial statements. The use of financial statements ensures the integrity of the measure and alignment with the true financial performance of the Group. The Vesting Entitlement for each performance condition is subject to retesting based on the Group's average performance against that performance condition over combined first and second tranche periods and combined first, second and third tranche periods respectively. To the extent that any Performance Rights do not vest after retesting, they will lapse. To the extent that any Loan Shares do not vest after retesting, they will be forfeited and the corresponding loan obligation is extinguished.
Rights associated with Performance Rights	Performance Rights do not confer any right to vote, attend meetings of members or participate in a distribution of profit or a return of capital before vesting.
Rights associated with Loan Shares	While the Loan Shares are held on trust, participants will be entitled to the income received in respect of those Shares but any income will be first applied towards satisfaction of the outstanding loan amount relating to those Loan Shares (if any), except to the extent of a provision made for the participant to satisfy tax obligations in relation to such income. Subject to the terms of the trust, participants will not be entitled to vote those Shares. The trustee will be entitled to vote the Loan Shares it holds on trust.
Dealing restrictions	Participants must not sell, transfer, encumber, hedge or otherwise deal with unvested Performance Rights or Loan Shares. These restrictions will also apply to any vested Loan Shares with an outstanding loan. The participant will be free to deal with the shares allocated on vesting of Performance Rights or any vested Loan Shares in respect of which the loan has been repaid, subject to the requirements of the Company's Securities Dealing Policy.
Treatment on cessation of employment	If the participant ceases employment for cause, unless the Board determines otherwise, any unvested LTI awards will lapse or be forfeited as appropriate. In all other circumstances: • unless the Board determines otherwise, a pro rata portion of the unvested tranche of LTI awards for the financial year in which the participant ceases employment (calculated by reference to the portion of the relevant financial year that has elapsed up to the date of their cessation) will remain on foot and will vest in due course if the performance conditions are achieved (save that the continuing employment and retesting conditions will not apply); and • any unvested LTI awards (including other tranches) will automatically lapse or be forfeited. Where Loan Shares are forfeited, the corresponding loan obligation will be extinguished and any voluntary repayments that the participant has made against the loan (other than as result of dividends paid and applied to the repayment of the loan by the Company) will be repaid to the participant.
Treatment in the event of a change in control	In the event of a takeover event, the Board has discretion to vest any Performance Rights or Loan Shares, based on performance against the performance conditions up to the date of the change of control. Where only some of the Performance Rights or Loan Shares are vested on a change of control, the remainder will immediately lapse or be forfeited (as the context requires). The Board also has discretion to provide a participant with shares in a company that has obtained control of the Company on vesting of Performance Rights.

Executive service agreements

All senior executives are party to a written executive service agreement with Pepper.

Key terms of Executive Service Agreement for CEOs and CFO

Duration	Ongoing term
Fixed Remuneration for FY2015	Michael Culhane – $750,000 per annum base salary plus superannuation Patrick Tuttle – $750,000 per annum base salary plus superannuation Cameron Small – $400,000 per annum base salary plus superannuation
Periods of notice required to terminate and termination payments	Either party may terminate the contract by giving 6 months' notice. The Company may terminate immediately in certain circumstances, where the relevant senior executive engages in serious or wilful misconduct, he has been convicted of an offence punishable by imprisonment or he has been dishonest, misleading or deceptive in the course of his dealings with the Board.

D. NON-EXECUTIVE DIRECTOR REMUNERATION

Principles of Non-Executive Director remuneration

As outlined in section B, Pepper's remuneration policy for Non-executive Directors aims to ensure that Pepper can attract and retain suitably qualified and experienced Directors having regard to:

- the level of fees paid to Non-executive directors of other major Australian companies;
- the size and complexity of Pepper's operations; and
- the responsibilities and work requirements of Board members.

Current fee levels and fee pool

The current Non-executive Director fee pool has been set by Pepper at $800,000 per annum.

Annual directors' fees to be paid by Pepper are $75,000 (plus superannuation) to the Chairman and other Non-executive Directors, inclusive of Committee fees.

Other payments may be made for additional services outside the scope of Board and Committee duties.

Directors are also entitled to be remunerated for all reasonable travel and other expenses reasonably incurred in attending to Pepper's affairs.

There are no retirement benefit schemes for Non-executive Directors.

IPO arrangements

As disclosed in the Prospectus, each of the Non-executive Directors received a one-off grant of options as part of the Director's remuneration.

On 5 August 2015, each of the Non-executive Directors were allocated 75,000 options over Shares for nil consideration as part of their remuneration packages. The issue of options further enhanced the alignment of interests between Non-executive Directors and shareholders.

The options are not subject to any performance or service conditions in order to preserve the Directors' impartiality.

Each option entitles the Director to acquire one Share on payment of an exercise price. The exercise price is $2.60, which was the offer price under the Prospectus. The options will become exercisable in three equal tranches on the 12, 24 and 36 month anniversaries of the grant. Any unexercised options will expire on 5 August 2022.

Options do not carry any dividend or voting rights prior to vesting and exercise.

Any dealing with options is prohibited, unless the Board determines otherwise. Directors will be free to deal with Shares allocated on exercise of the options, subject to the requirements of the Company's Securities Dealing Policy.

REMUNERATION REPORT (CONT.)

E. IMPORTANT STATUTORY REMUNERATION DISCLOSURES

Senior executive remuneration

Statutory disclosures

The following table sets out the statutory disclosures required under the *Corporations Act 2001* (Cth) and in accordance with the Accounting Standards.

	Short-term employee benefits			Post-employment benefits	Share-based payments			Total
	Cash salary	STI[4,5]	Other[1]	Superannuation benefits	Shares[5]	Options[2,3]	Rights[2]	
Michael Culhane	$803,670	$763,204	$173,738	$19,034	$78,796	$25,084	$29,779	$1,893,305
Patrick Tuttle	$803,670	$763,204	$19,482	$19,034	$78,796	$25,084	$29,779	$1,739,049
Cameron Small	$407,383	$310,060	$9,933	$19,034	$23,940	$16,722	$19,852	$806,924
Total	**$2,014,723**	**$1,836,468**	**$203,153**	**$57,102**	**$181,532**	**$66,890**	**$79,410**	**$4,439,278**

Notes

1 – The amounts disclosed as other benefits relate to car spaces, private health insurance, telephone and internet fees and other similar items.

2 – The value of rights and options granted to the senior executives is based on the fair value, measured using a Black Scholes simulation model. The factors and assumptions used in determining the fair value on grant date are set out in the Note 27 to the financial statements. The Grant date of the options and rights granted in 2015 was 1 August 2015. There has been no forfeiture of any options or rights granted under this plan and no options or rights have been exercised.

3 – Loan Shares are treated as options under the Australian Accounting Standards and have been included in this column.

4 – The amounts disclosed as STI relate to amounts expensed in the current year. Under the current STI arrangements 20% of an awarded STI is deferred for three years subject to a continuous service condition. Deferred components are expensed over the relevant vesting period. The amount expensed in FY2015 relating to deferred STI with a vesting date in 2017 is $80,671. The amount expensed in FY2015 relating to deferred STI with a vesting date in 2018 is $87,797.

5 – In February 2015 the senior executives utilised part of their STI deferred amounts from FY2013 and FY2014 to subscribe for shares at the prevailing market value. The amount expensed in 2015 relating to the cash component is included under STI (refer Note 4) and the amount expensed in 2015 relating to the equity settled component is included under Shares in the shared-based payments column. The continuous service vesting condition attached to the original deferred component of the awarded bonus remains applicable to the shares being acquired under this arrangement.

Movements in Performance Rights and Loan Shares held by senior executives

The following table sets out the movement during FY2015, by number and value, of Performance Rights and Loan Shares held by each member of KMP.

Australian Accounting Standards require the Loan Shares be treated as options for accounting purposes. As a result, the amounts receivable from senior executives in relation to these loans are not recognised in the financial statements.

Name	Instrument	Opening balance	Granted (number)	Granted (value)[1,2]	Vested (number)	Vested (value)	Lapsed (number)	Lapsed (value)	Closing balance
Michael Culhane[3]	Performance Rights	–	96,743	$170,716	–	$ –	–	$ –	96,743
	Loan Shares	–	209,520	$143,800	–	$ –	–	$ –	209,520
Patrick Tuttle[4]	Performance Rights	–	96,743	$170,716	–	$ –	–	$ –	96,743
	Loan Shares	–	209,520	$143,800	–	$ –	–	$ –	209,520
Cameron Small[5]	Performance Rights	–	64,496	$113,812	–	$ –	–	$ –	64,496
	Loan Shares	–	139,680	$95,866	–	$ –	–	$ –	139,680

Notes

1 – The value of Performance Rights is the fair value of the rights calculated at grant date using a Black-Scholes simulation model. The value of Loan Shares is the fair value of the shares calculated at grant date using a Black Scholes simulation model.

2 – The Performance Rights were granted on 5 August, 2015. There is no exercise price. The loans provided by the Company to senior executives and used to acquire Loan Shares under the LTI plan during the year were granted on 5 August, 2015.

3 – Performance Rights and Loan Shares are held by Culhane Family Investments Pty Limited in its capacity as trustee of the Culhane Family Trust.

4 – Performance Rights and Loan Shares are held by Eccleston Corporation Pty Ltd in its capacity as trustee of The Tamworth Trust.

5 – Performance Rights and Loan Shares are held by William Cameron Beaumont Small as trustee for the WCB Small Family Trust.

E. IMPORTANT STATUTORY REMUNERATION DISCLOSURES (CONT.)

Senior executive remuneration (cont.)

Movements in loans held by senior executives

The following table shows the movements in loans made, guaranteed or secured by the Company or Group entities to senior executives:

Name	Opening balance[1]	Advanced during FY2015[2]	Repayments during FY2015[3]	Closing balance[4]	Highest amount of indebtedness during the reporting period
Michael Culhane	$965,955	$544,752	$ -	$1,510,707	$1,510,707
Patrick Tuttle	$965,955	$544.752	$ -	$1,510,707	$1,510,707
Cameron Small	$800,414	$363,168	$ -	$1,163,582	$1,163,582
Total	**$2,732,324**	**$1,452,672**	**$ -**	**$4,184,996**	**$4,184,996**

Notes

1 – The opening balance is attributable to legacy arrangements that existed pre-IPO. A summary of the terms and conditions of these loans is set out below.

2 – This column relates to loans provided by the Company under the LTI plan to acquire Loan Shares. See below and section C for further details.

3 – No repayments have been made during the period.

4 – There were no write-downs or allowances for doubtful receivables recognised by the Group in respect of loans referred to in this table.

Legacy arrangements – Michael Culhane and Patrick Tuttle

Entities associated with Michael Culhane and Patrick Tuttle have each entered into a loan agreement with the Company under which the Company has lent each of them money in connection with shares they held in a Group entity which were exchanged for shares in the Company in connection with the Group's restructure prior to listing. The loans are interest free and limited recourse, and due to be repaid on 31 January 2021 (or such later date agreed by the Company). For legal reporting reasons, the amount of interest that would have been charged on each of the loans on an arms-length basis would have been $60,011 for Michael Culhane and $60,011 for Patrick Tuttle, based on an arms-length rate of 5.05%.

Legacy arrangements – Cameron Small

Cameron Small was granted a limited-recourse, interest free loan from the Company to facilitate the exercise of options to acquire shares in connection with an employee incentive scheme. These shares are subject to a lien until such time as the outstanding loan amount is repaid in full. These shares are also subject to escrow arrangements in connection with the Company's IPO. The loan is due to be repaid on 31 December 2023 (or such later date agreed to by the Company). For legal reporting reasons, the amount of interest that would have been charged on this loan on an arms-length basis would have been $47,908, based on an arms-length rate of 5.05%.

LTIP arrangements – Michael Culhane and Patrick Tuttle

The loans were provided by the Company under the LTI plan to acquire Loan Shares. They are interest free and limited recourse, and due to be repaid on 29 December 2022. For legal reporting reasons, the amount of interest that would have been charged on each of the loans on an arms-length basis would have been $11,230 for Michael Culhane and $11,230 for Patrick Tuttle, based on the commercial borrowing rate of Pepper of 5.05%.

LTIP arrangements – Cameron Small

The loan was provided by the Company under the LTI plan to acquire Loan Shares. The loan is interest free and limited recourse, and due to be repaid on 29 December 2022. For legal reporting reasons, the amount of interest that would have been charged on the loan on an arms-length basis would have been $7,487, based on the commercial borrowing rate of Pepper of 5.05%.

REMUNERATION REPORT (CONT.)

Non-Executive Director Remuneration

Statutory disclosures

The following table sets out the statutory disclosures required under the *Corporations Act 2001* (Cth) and in accordance with the Accounting Standards.

		Short term benefits		Share-based payments	Post-employment benefits			Total
In AUD		Board and Committee fees[1]	Non-monetary benefits	Options	Other benefits (non-cash)	Termination Benefits	Super-annuation Benefits[1]	Remuneration for services as a Non-executive Director
Seumas Dawes	2015	$75,000	$ –	$32,284	N/A	N/A	$7,125	$114,409
Des O'Shea	2015	$82,125	$ –	$32,284	N/A	N/A	$ –	$114,409
Melanie Willis	2015	$75,000	$ –	$32,284	N/A	N/A	$7,125	$114,409
Matthew Burlage	2015	$82,125	$ –	$32,284	N/A	N/A	$ –	$114,409

Note

1 – An amount equivalent to the Superannuation Benefit is paid in lieu of that benefit and included in the Board and Committee fee paid to Des O'Shea and Matthew Burlage.

Movements in options held by Non-executive Directors

As noted in section D above, Non-executive Directors received a one-off grant of options as part of their remuneration package.

The following table sets out the movement during FY2015, by number and value, of options held by each Non-executive Director.

Name	Opening balance	Granted (number)	Granted (value)[1]	Vested (number)	Vested (value)	Exercised (number)	Exercised (value)	Lapsed (number)	Lapsed (value)	Closing balance
Seumas Dawes	Nil	75,000	$32,284	Nil	Nil	Nil	Nil	Nil	Nil	75,000
Des O'Shea	Nil	75,000	$32,284	Nil	Nil	Nil	Nil	Nil	Nil	75,000
Melanie Willis	Nil	75,000	$32,284	Nil	Nil	Nil	Nil	Nil	Nil	75,000
Matthew Burlage	Nil	75,000	$32,284	Nil	Nil	Nil	Nil	Nil	Nil	75,000

Note

1 – The value of options granted in the year is the fair value of the rights calculated at grant date using a Black-Scholes simulation model.

E. IMPORTANT STATUTORY REMUNERATION DISCLOSURES (CONT.)

KMP shareholdings

The following table summarises the movements in the shareholdings of KMP (including their personally related entities) for FY2015.

	Held at 1 January 2015[1,2]	Held at listing date[1,2]	Received on vesting of LTI	Received on exercise of options	Received as remuneration	Other net change	Held at 31 December 2015
Non-Executive Directors							
Seumas Dawes	95,763	52,618,961[3]	N/A	Nil	Nil	–	52,618,961
Des O'Shea	–	76,924	N/A	Nil	Nil	–	76,924
Melanie Willis	–	38,462	N/A	Nil	Nil	–	38,462
Matthew Burlage	–	–	N/A	Nil	Nil	–	–
Executives							
Michael Culhane	14,907	8,263,500[4]	Nil	N/A	Nil	–	8,263,500
Patrick Tuttle	13,104	7,362,000[5]	Nil	N/A	Nil	–	7,362,000
Cameron Small	4,290	2,180,500[6]	Nil	N/A	Nil	–	2,180,500

Notes

1 – This includes shares acquired by KMP in connection with various legacy arrangements.

2 – At the time of listing on the Australian Securities Exchange all existing Ordinary, A Class and B Class shares were converted into ASX listed Ordinary shares in Pepper Group Limited on a 500 for 1 basis. Any reference to a quantity of Shares in the following notes is a reference to an equivalent post conversion Ordinary Share.

3 – Seumas Dawes holds 35,838,500 Shares in his own name, as well as a deemed relevant interest in 16,780,461 Shares held by Rose Capital Pty Ltd and in 123,915,675 Shares held by Pepper Group Limited. Of the shares held by Rose Capital Pty Ltd, 3,449,000 were acquired in the current year (February 2015) as part of a pre IPO equity raise and an additional 1,288,461 were acquired at the time of listing by the company.

4 – 8,196,000 Shares are held by Culhane Family Investments Pty Limited as trustee of the Culhane Family Trust, of which Michael Culhane is a director and holds 50% of the shares on issue. Of these, 742,000 Shares were acquired in the current year in connection with a legacy arrangement that had vested in 2014 and was exercised pre IPO. 67,500 Shares are held by CPU Share Plans Pty Limited in its capacity as trustee of the Pepper Group Employee Share Trust and were acquired in the current year (February 2015) as part of a pre IPO equity raise by the company. The shares held by CPU Share Plans Pty Limited, include shares in relation to deferred STI granted in 2013 (35,075 shares) which is to be released in 2017 and 2014 (32,425 shares) which is to be released in 2018.

5 – 7,263,731 Shares are held by Eccleston Corporation Pty Ltd in its capacity as trustee of The Tamworth Trust, of which Patrick Tuttle is a director and holds 50% of the shares on issue. Of these, 742,000 Shares were acquired in the current year in connection with a legacy arrangement that had vested in 2014 and was exercised pre IPO. 38,462 Shares are held by Eccleston Corporation Pty Ltd in its capacity as trustee of The Kenthurst Super Fund; 117,500 Shares are held by CPU Share Plans Pty Limited in its capacity as trustee of the Pepper Group Employee Share Trust of which 67,500 were acquired in the current year (February 2015) as part of a pre IPO equity raise by the company. The shares held by CPU Share Plans Pty Limited, include shares in relation to deferred STI granted in 2013 (35,075 shares) which is to be released in 2017 and 2014 (32,425 shares) which is to be released in 2018.

6 – Cameron Small holds 2,117,500 shares in his own name as trustee for the WCB Small Family Trust. 63,000 Shares are held by CPU Share Plans Pty Limited in its capacity as trustee of the Pepper Group Employee Share Trust of which 35,500 were acquired in the current year (February 2015) as part of a pre IPO equity raise by the company. The shares held by CPU Share Plans Pty Limited, include shares in relation to deferred STI granted in 2013 (10,656 shares) which is to be released in 2017 and 2014 (9,852 shares) which is to be released in 2018.

CORPORATE GOVERNANCE STATEMENT

Pepper Group Limited (The Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Company has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council.

The 2015 corporate governance statement is dated as at 31 December 2015 and reflects the corporate governance practices in place throughout the 2015 financial year. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at:

http://www.pepper.com.au/about/shareholder-centre/corporate-governance

DIRECTORS' DECLARATION

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

a) The financial statements and notes, as set out on pages 41 to 83, are in accordance with the *Corporation Act 2001*, including:

    (a) compliance with accounting standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements: and

    (b) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the financial year ended on that date.

b) 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.

The attached financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

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

On behalf of the Directors

Seumas Dawes
Chairman and Non-Executive Director
26 February 2016

Patrick Tuttle
Co-Group Chief Executive Officer and Director
26 February 2016

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

25 February 2016

Dear Board Members

Pepper Group Limited

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

As lead audit partner for the audit of the financial statements of Pepper Group Limited for the financial year ended 31 December 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 Gatt

Jamie Gatt
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

Report on the Financial Report

We have audited the accompanying financial report of Pepper Group Limited which comprises the consolidated balance sheet as at 31 December 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 41 to 83.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONT.)

Auditor's Independence Declaration

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

Opinion

In our opinion:

(a) the financial report of Pepper Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 32 of the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Pepper Group Limited for the year ended 31 December 2015, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie Gatt

Jamie C.J Gatt
Partner
Chartered Accountants
Sydney, 26 February 2016

CONSOLIDATED INCOME STATEMENT

	Notes	**Year ended 31 December 2015 $'000**	Year ended 31 December 2014 $'000
Interest revenue	5	**333,033**	279,454
Fee revenue	5	**183,711**	125,567
Other revenue	5	**10,985**	18,360
Total revenue		**527,729**	423,381
Employee benefits expenses	5	**(195,966)**	(111,978)
Depreciation and amortisation expenses	5	**(14,055)**	(6,498)
Borrowing costs	5	**(209,796)**	(189,860)
Loan loss expenses	5	**(24,420)**	(8,406)
Other expenses from operations	5	**(76,438)**	(61,903)
Total expenses		**(520,675)**	(378,645)
Profit from share of results of associates	13	**3,143**	–
Profit before tax		**10,197**	44,736
Income tax expenses	7	**(6,792)**	(6,738)
Profit after tax		**3,405**	37,998
Profit for the year attributable to:			
Owners of the company		**3,457**	38,103
Non-controlling interests		**(52)**	(105)
		3,405	37,998

Earnings per share		**Cents**	Cents
Basic	4	**3**	37
Diluted	4	**3**	37

The above consolidated income statement should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Profit after tax		**3,405**	37,998
Other comprehensive income/(expense) that may be recycled to profit or loss:			
Currency translation reserve:			
Currency translation differences within associates	22	**(577)**	–
Currency translation differences relating to other Group entities and associates		**10,267**	3,000
Tax		**1,602**	(426)
Cash flow hedge reserve:			
Gain/(loss) from changes in fair value	22	**(2,426)**	(429)
Amounts transferred to the income statement		**528**	–
Tax		**698**	–
Available for sale reserve:			
Amounts transferred to the income statement		**-**	(45)
Total other comprehensive income that may be recycled to profit or loss		**10,092**	2,100
Other comprehensive income not recycled to profit or loss (net of tax):			
Retirement benefit remeasurements		**(57)**	36
Other comprehensive income for the period		**10,035**	2,136
Total comprehensive income for the period		**13,440**	40,134
Total comprehensive income/(expense) attributable to:			
Owners of the company		**13,492**	40,239
Non-controlling interests	14	**(52)**	(105)
		13,440	40,134

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

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2015 $'000	As at 31 December 2014 $'000
ASSETS			
Cash and cash equivalents	26	**555,737**	462,445
Investment securities	8	**1,197**	70,897
Derivative financial assets	30	**23,080**	59,805
Receivables	9	**70,687**	164,000
Other assets	12	**13,402**	8,737
Loans and advances	10	**5,652,260**	3,963,660
Deferred tax assets	7	**16,461**	7,128
Other investments	11	**42,432**	55,136
Investment in associates	13	**94,075**	–
Property, plant and equipment		**12,602**	9,093
Intangible assets	14	**39,674**	42,987
Goodwill	14	**24,768**	23,821
Total assets		**6,546,375**	4,867,709
LIABILITIES			
Deposits	15	**760,294**	332,348
Trade and other payables	16	**25,425**	30,882
Current tax liabilities		**3,267**	7,125
Borrowings	17	**5,201,525**	4,182,050
Other liabilities	18	**116,826**	45,737
Provisions	20	**29,618**	19,771
Deferred tax liabilities	7	**805**	2,289
Total liabilities		**6,137,760**	4,620,202
Total net assets		**408,615**	247,507
EQUITY			
Issued capital	21	**296,065**	143,517
Other equity	22	**(22,332)**	(19,297)
Other reserves	22	**17,210**	7,118
Retained earnings		**118,431**	116,876
Total equity attributable to the owners of the company		**409,374**	248,214
Non-controlling interests		**(759)**	(707)
Total equity		**408,615**	247,507
Net assets per share (dollars)		**2.36**	2.39
Net tangible assets per share (dollars)		**1.99**	1.75

The above consolidated balance sheet should be read in conjunction with the accompanying notes to the 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 2013	102,107	(17,410)	5,018	82,456	172,171	(602)	171,569
Profit for the period	–	–	–	38,103	38,103	(105)	37,998
Available for sale investments	–	–	(45)	–	(45)	–	(45)
Currency translation movements	–	–	2,574	–	2,574	–	2,574
Cash flow hedge movements	–	–	(429)	–	(429)	–	(429)
Retirement benefit remeasurements	–	36	–	–	36	–	36
Total comprehensive income for the period	–	36	2,100	38,103	40,239	(105)	40,134
Contributions of equity	41,410	(2,541)	–	–	38,869	–	38,869
Dividend paid	–	–	–	(1,901)	(1,901)	–	(1,901)
Recognition of share-based payments	–	618	–	–	618	–	618
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	**–**	**–**	**–**	**3,457**	**3,457**	**(52)**	**3,405**
Available for sale investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Currency translation movements	**–**	**–**	**11,292**	**–**	**11,292**	**–**	**11,292**
Cash flow hedge movements	**–**	**–**	**(1,200)**	**–**	**(1,200)**	**–**	**(1,200)**
Retirement benefit remeasurements	**–**	**(57)**	**–**	**–**	**(57)**	**–**	**(57)**
Total comprehensive income for the period	**–**	**(57)**	**10,092**	**3,457**	**13,492**	**(52)**	**13,440**
Contributions of equity	**156,648**	**(7,799)**	**–**	**–**	**148,849**	**–**	**148,849**
Redemptions of equity	**(36,145)**	**–**	**–**	**–**	**(36,145)**	**–**	**(36,145)**
Dividend paid	**–**	**–**	**–**	**(1,901)**	**(1,901)**	**–**	**(1,901)**
Recognition of share-based payments	**32,045**	**4,821**	**–**	**–**	**36,866**	**–**	**36,866**
Other movements	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
Balance at 31 December 2015	**296,065**	**(22,332)**	**17,210**	**118,431**	**409,374**	**(759)**	**408,615**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Cash flows from operating activities			
Receipts from customers		**279,342**	148,577
Payments to suppliers and employees		**(304,168)**	(160,789)
Interest received		**352,635**	295,043
Interest and other finance costs paid		**(208,676)**	(225,021)
Income taxes paid		**(15,596)**	(12,769)
Net cash inflow from operating activities	26	**103,537**	45,041
Cash flows from investing activities			
Payments for property, plant and equipment		**(6,881)**	(5,666)
Payments for intangibles		**(5,820)**	(1,726)
Receipts from disposals of equity investments		**15,440**	2,362
Amounts received from related parties		**1,632**	460
Payments for arrangement fees		**(7,754)**	(12,514)
Repayment of notes		**-**	(7,212)
Repayment of debt securities		**73,013**	43,079
Net (increase)/decrease in loans and advances		**(1,634,197)**	(438,833)
Net cash outflow from deconsolidation of subsidiaries		**(1,661)**	–
Payments made for investment in associate		**(79,997)**	–
Sale/(Purchase) of loan portfolios		**46,719**	(241,698)
Net cash outflow from investing activities		**(1,599,506)**	(661,748)
Cash flows from financing activities			
Net proceeds from issuance of capital		**150,867**	38,863
Redemption of preference shares		**(36,145)**	–
Net increase in borrowings		**1,065,098**	697,794
Net increase/(decrease) in deposits		**406,885**	(56,781)
Dividend paid		**(1,901)**	(1,901)
Net cash inflow from financing activities		**1,584,804**	677,975
Effects of exchange rate changes on balance of cash held in foreign currencies		**4,457**	4,352
Net increase in cash and cash equivalents		**93,292**	65,620
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	26	**555,737**	462,445

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 1 – ABOUT THIS REPORT

The information presented in note 1 is considered relevant to an understanding of the financial statements.

General information

These consolidated financial statements are for the consolidated group (the Group), consisting of Pepper Group Limited (the Company) and its controlled entities for the year ended 31 December 2015. These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2016.

The Group embarked on an initial public offering ("IPO") and listed on the Australian Securities Exchange ("ASX") on 31 July 2015, and from that date forward the ordinary shares of the Company were publicly traded. The ASX ticker code is PEP. The Company is incorporated and domiciled in Australia and is a company limited by shares.

The Company is a for-profit entity for the purpose of preparing financial statements.

Basis of preparation

For the year ended 31 December 2014 the Group's consolidated financial statements were general purpose financial statements prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

For the year ended 31 December 2015 the Group prepared (full) general purpose financial statements in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. In addition to the recognition, classification and measurement principles previously complied with, these also comply with the disclosure and presentation principles.

In accordance with AASB 1 'First time adoption of Australian Accounting Standards' the Group has adopted all relevant AASB standards for the year ended 31 December 2015. As the Group previously issued AASB compliant general purpose consolidated financial statements (for the year ended 31 December 2009), resuming application 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.

Historical cost convention

The financial statements have been prepared on the basis of historical cost, except for the following exceptions:

- derivative financial instruments – measured at fair value.
- investment securities – measured at fair value.
- other investments – some balances are measured at fair value as disclosed in the relevant note.

Compliance with IFRS

For the year ended 31 December 2015 the consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Rounding

The amounts contained in this financial report 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders.
- potential voting rights held by the Company, other vote holders or other parties.
- rights arising from other contractual arrangements.
- any additional facts and circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and statement of other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 1 – ABOUT THIS REPORT (CONT.)

Basis of preparation (cont.)

Basis of consolidation (cont.)

Each component of comprehensive income is attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses, changes in ownership interests and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Deconsolidation of subsidiaries

During the year ended 31 December 2015, the Group recorded the deconsolidation of two subsidiaries: Pepper High Income Fund and Pepper Investment Grade Credit Fund, and the consolidation of two entities: PEPL Holdings Pty Ltd and the Pegaso Consumer Finance limited recourse entity. None of these subsidiaries are considered material and have not been disclosed as a disposal or acquisition of a subsidiary.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are presented in Australian dollars ($), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions and balances

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of the transactions. Exchange differences on monetary items are recognised in the income statement in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), or exchange differences on transactions entered into in order to hedge certain foreign currency risks.

At the end of each reporting period, balances are translated as follows:

- monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.
- non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured.
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Group companies

The results and balance sheet of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the Group's presentation currency as follows:

- assets and liabilities are translated into Australian dollars using exchange rates prevailing at the end of the reporting period.
- income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.
- exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments, on identifiable assets and liabilities acquired, arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Financial instrument accounting policies

Classification

Financial assets and financial liabilities are classified into the following specified categories:

- cash and cash equivalents.
- financial assets and financial liabilities at fair value through profit or loss (FVTPL).
- held-to-maturity investments.
- available-for-sale financial assets.
- loans and receivables.
- financial liabilities at amortised cost.

The classification depends on the purpose for which the related items were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument, if this is not the case, the instrument is generally an equity instrument and the proceeds included in equity, net of transaction costs.

NOTE 1 – ABOUT THIS REPORT (CONT.)

Financial instrument accounting policies (cont.)

Recognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Measurement – Initial

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Measurement – Subsequent

Subsequent to initial recognition the Group measures its financial instruments as follows:

- Cash and cash equivalents, loans and receivables, held-to-maturity investments, and financial liabilities at amortised cost (deposits and borrowings) are subsequently carried at amortised cost using the effective interest method.
- Financial assets and financial liabilities classified as such are measured at fair value with changes in fair value being recognised in the income statement.
- Available-for-sale financial assets are measured at fair value with changes in fair value being recognised in other comprehensive income.

Impairment

At each balance sheet date, the Group assesses whether there is objective evidence that any financial asset or group of financial assets has been impaired as a result of one or more events occurring since they were initially recognised (a "loss event") and whether that loss event (or events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. Objective evidence may include significant financial difficulties of an obligor, adverse changes in the payment status of borrowers or local economic conditions that correlate with defaults on a group of financial assets. If there is objective evidence that financial assets are impaired, an impairment expense is recognised for the difference between the carrying amount of the asset and the present value of estimated future recoverable cash flows, taking into account any guarantees.

Where there is no objective evidence that an impairment loss has been incurred on a financial instrument considered individually, be it significant or not, the Group includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment. The amount of impairment on a group of homogeneous assets is determined on the basis of historical loss data, where relevant, for assets with credit risk characteristics similar to those in the portfolio. Impairment losses are recognised in the income statement and reflected in an allowance account against the relevant assets.

If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease then the decrease in impairment loss is reversed through the income statement. Impairment losses on available for sale investment securities are recognised by reclassifying the losses accumulated in the available for sale fair value reserve in equity to the income statement.

Derecognition

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

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

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

When financial instruments classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to the income statement as gains and losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

New and amended standards adopted by the Group

In the opinion of management there are no standards or amendments mandatorily applicable for the current reporting period which have had any impact on the current period or any prior period, or are likely to affect future periods.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2015 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

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*. AABS 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. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

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.

There have been no other new or amended accounting standards during the reporting period ended 31 December 2015 that have had or may have a significant impact on the financial results of the Group.

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

IFRS 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. The AASB is expected to issue the Australian Accounting Standard incorporating the new Standard without modification, as soon as practicable. Once the new Standard is issued in Australia, 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 IFRS 16. The financial impact on the financial statements has not yet been determined.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Determination of impairment losses on loans and advances

The Group assesses at each balance date whether there is any objective evidence of impairment. In determining whether objective evidence exists, and whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a loan before the decrease can be identified within an individual loan. Such evidence may include payment defaults, increased historic loss rates and trends in the relevant industry or market. The carrying value of loans and advances, as well as further information on the impairment provisions, is set out in note 10. Additionally for further information on how the Group manages its credit risk please see note 30.

Goodwill and other intangible assets

Determining whether goodwill or other indefinite life intangible assets are impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, an impairment loss may arise. In addition, determining the estimated useful lives of definite life intangible assets requires the use of judgement. For further information please see note 14.

Revenue recognition and effective interest rate method

The measurement at amortised cost using the effective interest rate requires calculations based on reliably estimated cash flows through the expected life of a financial instrument incorporating a behavioural model of prepayments. Determining the cash flows and the expected life of a financial instrument implies behavioural modelling. Any fees accounted for using the effective interest rate method are assessed by management who apply judgement to ensure recognition in the most appropriate period. For further information please see note 5.

NOTE 4 – 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. 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.

During the year 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 2014 calculation presented).

Calculation

	Year ended 31 December 2015	Year ended 31 December 2014
Profit for the period attributable to the owners of the company ($'000)	**3,457**	38,103
Weighted average number of ordinary shares (thousand):		
Issued ordinary shares at the start of the period	**103,838**	100,243
Effect of allotment and issuances	**69,552**	3,595
Issued ordinary shares at the end of the period[1]	**173,390**	103,838
Weighted average number of shares (basic)	**133,791**	102,041
Effect of share options in issue	**1,662**	3,500
Weighted average number of shares (diluted)	**136,961**	103,791

	cents	**cents**
Basic earnings per share	**3**	37
Diluted earnings per share	**3**	37

Note

1 – Balance excludes treasury shares.

NOTE 5 – REVENUE AND EXPENSES

Revenue recognition

General

Revenue arises in the course of ordinary activities of the Group and is measured at the fair value of the consideration received or receivable. It is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Effective interest rate accounting

Loans are measured on an amortised cost basis in the balance sheet. This requires that, for all loan assets, revenue is recognised over the estimated (not contractual) life of the loan, taking into account all income and expenditure directly attributable to the loan, in the same way that all these factors would be taken into account in determining an investment return for a product. The rate at which revenue is recognised is referred to as the effective interest rate and is equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan. The revenue stream includes interest revenue, mortgage risk fees received at loan settlement, loan premium revenue and early termination interest adjustments payable upon early redemption of a loan. Acquisition costs such as upfront broker commissions paid are also spread across the expected life of the loan. Similarly, introductory interest rate discounts are spread over the expected life of the loan rather than the discount period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – REVENUE AND EXPENSES (CONT.)

Revenue recognition (cont.)

Servicer fees

Fees earned in the Group's role as servicer, including trust manager, performance and servicer fees are recognised as the services are provided and in line with amounts due and payable as set out in the relevant trust manager and performance fee deeds and servicer fee letters pertaining to each trust.

Other fee income

Advisory fees primarily represent income earned by the Pepper Property Group. The material components of other fee revenue are application fees, post settlement fees and performance fees.

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

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
(a) Revenue		
Interest revenue:		
Interest from customers	**320,623**	259,576
Interest from investments	**5,224**	11,118
Bank interest	**7,186**	8,760
	333,033	279,454
Fee revenue:		
Servicing fees	**127,402**	75,988
Advisory fees	**11,851**	12,325
Other fee revenue	**44,458**	37,254
	183,711	125,567
Total interest and fee revenue	**516,744**	405,021
Loan sale revenue	**5,621**	13,049
Other revenue	**5,364**	5,311
	10,985	18,360
Total revenue	**527,729**	423,381

Expense recognition policy

Employee benefits

Employee benefits expenses are recorded for benefits to employees in respect of wages and salaries, bonuses, share-based payments, annual leave and long service leave and are recognised in respect of employees' services up to the end of the reporting period. See note 20 for further information on recognition and measurement of employee benefits.

Borrowing costs

Borrowing costs include interest on deposits, coupon payments to notes issued and other interest paid on non-securitised funding facilities are recognised under the effective interest rate method. See further detail under revenue section of this note.

NOTE 5 – REVENUE AND EXPENSES (CONT.)

Expense recognition policy (cont.)

Loan loss expenses

Loan loss expenses include specific and collective provisions for loan impairment and other direct loan write offs recorded during the year.

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
(b) Expenses		
Employee benefits expenses[1]	**195,966**	111,978
Depreciation and amortisation expenses:		
Amortisation of intangibles	**9,407**	2,934
Depreciation of property, plant and equipment[1]	**4,648**	3,564
	14,055	6,498
Borrowing costs:		
Interest – deposits	**13,877**	8,735
Interest – paid on other group funding sources	**192,001**	173,885
Other borrowing costs	**3,918**	7,240
	209,796	189,860
Loan loss expenses	**24,420**	8,406

Note

1 – The 2014 comparative balance for 'rent and other premises related' expenses has been reclassified to 'employee benefits' expenses, 'depreciation of property, plant and equipment' expenses, and 'other' expenses to more accurately reflect the nature of the expenses. This reclassification decreased the 'rent and other premises related' expense comparative by $5.4m, increased the 'employee benefits' expense comparative by $1m, the 'depreciation of property plant, and equipment' expense comparative by $1.2m, and the 'other expenses' comparative by $3.2m.

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Other expenses from operations:		
Loan enforcement expenses	**6,267**	4,996
Servicer fees	**1,075**	3,816
Trustee expenses	**1,725**	1,570
Legal fees	**3,644**	2,954
Consulting fees	**6,226**	5,214
Audit related expenses	**2,248**	1,778
Other professional services	**2,185**	1,728
Publications and advertising	**6,581**	3,894
Travel	**4,562**	3,487
Rent and other premises related[1]	**12,840**	9,435
Telephone	**2,042**	1,809
Printing, stationery and postage	**3,047**	1,975
Licence fees	**929**	1,499
Computer, internet and information services	**7,444**	4,075
Insurance	**3,249**	2,417
GST input tax losses	**3,789**	3,222
Other expenses[1]	**8,585**	8,034
Total other expenses from operations	**76,438**	61,903

Note

1 – The 2014 comparative balance for 'rent and other premises related' expenses has been reclassified to 'employee benefits' expenses, 'depreciation of property, plant and equipment' expenses, and 'other' expenses to more accurately reflect the nature of the expenses. This reclassification decreased the 'rent and other premises related' expense comparative by $5.4m, increased the 'employee benefits' expense comparative by $1m, the 'depreciation of property plant, and equipment' expense comparative by $1.2m, and the 'other expenses' comparative by $3.2m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 6 – SEGMENTAL REPORTING

The accounting policies of the reportable segments are the same as the Group's accounting policies described throughout this financial report. All assets and liabilities are allocated to reportable segments including goodwill which is allocated to reportable segments as described in note 14.

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. 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, SME lending in Korea, and the servicing and management of Pepper-controlled and third-party funding vehicles. Equity accounted profits from Pepper's 12% equity interest in Prime Credit are reported as a share of associate profit or loss within the International Division.

In addition to those segments identified above the executive management team have identified the Corporate Division for inclusion in this disclosure. Although not meeting the strict definition of an operating segment, by virtue of the fact it does not earn revenues, management believe that the division is essential to understanding how the business is run.

- The Corporate Division represents group executives' (central executive and the principal investments team) 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 operating foreign exchange gains or losses.

Year ended 31 December 2015	ANZ Division $'000	International Division $'000	Corporate Division $'000	Total $'000
Revenue				
Interest revenue external to the Group	**269,376**	**63,657**	**-**	**333,033**
Intersegment interest	**1,127**	**(1,127)**	**-**	**-**
Fee revenue	**45,826**	**137,885**	**-**	**183,711**
Other revenue	**1,280**	**9,705**	**-**	**10,985**
Expenses				
Depreciation and amortisation	**(3,142)**	**(10,913)**	**-**	**(14,055)**
Borrowing costs	**(181,369)**	**(23,214)**	**(5,213)**	**(209,796)**
Loan loss expenses	**(11,036)**	**(13,384)**	**-**	**(24,420)**
Employee and other operating expenses	**(87,735)**	**(163,866)**	**(20,803)**	**(272,404)**
Other net income				
Equity profits from associates	**-**	**3,143**	**-**	**3,143**
Profit before taxation	**34,327**	**1,886**	**(26,016)**	**10,197**
Taxation	**(13,244)**	**(3,382)**	**9,834**	**(6,792)**
Profit after tax	**21,083**	**(1,496)**	**(16,182)**	**3,405**
Balance sheet				
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 – SEGMENTAL REPORTING (CONT.)

Year ended 31 December 2014	ANZ Division $'000	International Division $'000	Corporate Division $'000	Total $'000
Revenue				
Interest revenue external to the Group	259,907	19,547	–	279,454
Intersegment interest	396	(396)	–	–
Fee revenue	42,731	82,836	–	125,567
Other revenue	2,968	15,392	–	18,360
Expenses				
Depreciation and amortisation	(2,309)	(4,189)	–	(6,498)
Borrowing costs	(172,411)	(10,635)	(6,814)	(189,860)
Loan loss expenses	(7,422)	(984)	–	(8,406)
Employee and other operating expenses	(62,440)	(93,322)	(18,119)	(173,881)
Other net income				
Equity profits from associates	–	–	–	–
Profit before taxation	61,420	8,249	(24,933)	44,736
Taxation	(19,751)	5,533	7,480	(6,738)
Profit after tax	41,669	13,782	(17,453)	37,998
Balance sheet				
Total assets	4,411,973	455,736	–	4,867,709
Total liabilities	4,214,152	388,597	17,453	4,620,202
Investment in associates	–	–	–	–

NOTE 7 – TAXATION

Income tax expense comprises current and deferred tax. Tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case it is recognised in the relevant section. Tax effects arising from the initial recognition of a business combination is included in the accounting for that business combination.

Australian tax consolidated group

The Company and its wholly-owned Australian entities have formed a consolidated group for Australian income tax purposes. All entities within the tax consolidated group have entered into a tax sharing and funding agreement. The agreement is intended to limit joint and several liabilities for the applicable taxes.

The members of the tax consolidated group have agreed to pay to the Company an amount equal to the income tax that would otherwise be payable if the member was separately liable to pay income tax. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

Current tax

Current tax payable is based on taxable profit for the year and is calculated at the income tax rates applicable to group entities that have been enacted or substantively enacted in each jurisdiction at balance date.

Deferred tax

Deferred tax is accounted for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases. Deferred tax assets and liabilities are not recognised in respect of the following temporary differences:

- those arising from the initial recognition of goodwill.
- those arising from the initial recognition of other assets and liabilities (other than in a business combination) that affects neither the taxable income nor the accounting profit.
- those related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the asset can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 7 – TAXATION (CONT.)

Deferred tax (cont.)

Deferred tax is determined using the tax rates that are expected to apply in the period in which the liability will be settled or realised, based on income tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Group intends to settle them on a net basis.

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
(a) Income tax recognised in profit or loss		
Current tax		
Current tax expense in respect of the current year	**11,027**	15,273
Adjustments recognised in the current year in relation to the current tax of prior years	**435**	(372)
	11,462	14,901
Deferred tax		
Deferred tax (credit)/expense recognised in the current year	**(4,846)**	(8,089)
Adjustments recognised in the current year in relation to the deferred tax of prior years	**176**	(74)
	(4,670)	(8,163)
Total income tax expense recognised in the current year relating to continuing operations	**6,792**	6,738
(b) The income tax expense for the year can be reconciled to the accounting profit as follows:		
Profit before tax from continuing operations	**10,197**	44,736
Income tax expense calculated at 30% (2014: 30%)	**3,059**	13,421
Effect of income that is exempt from taxation	**(943)**	(1,055)
Effect of expenses that are not deductible in determining taxable profit	**5,095**	1,166
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(821)**	(462)
Recognition of tax assets relating to accumulated tax losses	**(409)**	(5,886)
Other	**200**	–
	6,181	7,184
Adjustments recognised in the current year in relation to the income tax of prior years	**611**	(446)
Income tax expense recognised in profit or loss (relating to continuing operations)	**6,792**	6,738

The tax rate used for the 2015 and 2014 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

NOTE 7 – TAXATION (CONT.)

Deferred tax (cont.)

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
(c) Income tax recognised in other comprehensive income		
Current tax	-	–
Deferred tax	2,300	(426)
Total income tax recognised in other comprehensive income	2,300	(426)
(d) Deferred tax balances		
Opening balance	4,839	(4,735)
Recognised in the income statement	4,670	8,162
Recognised in other comprehensive income	2,300	(426)
Recognised directly in equity	3,779	1,838
Acquisitions/disposals	-	–
Foreign currency differences arising on consolidation	68	–
Closing balance	15,656	4,839
Breakdown of closing balance as follows:		
Employee expenses	3,965	1,419
Provisions	566	527
Deferred expenses	(4,538)	(4,053)
Doubtful debts	3,624	1,834
Intangible assets	(899)	(1,799)
Recognition of tax assets relating to tax losses	11,400	5,886
Other	1,538	1,025
	15,656	4,839
Deferred tax balances are presented in the balance sheet as follows:		
Deferred tax assets	16,461	7,128
Deferred tax liabilities	(805)	(2,289)
	15,656	4,839

(e) Unrecognised deferred tax assets

There are unused tax losses in the Group, for which no deferred tax asset has been recognised as the measurement of any recognisable deferred tax asset is still highly uncertain and not reliably measureable.

NOTE 8 – INVESTMENT SECURITIES

Investment securities comprise short term securities held at various times by the South Korean Mutual Savings Bank as part of its liquidity management program. These may, and will, fluctuate in size depending on the needs of the bank at any given point in time.

Available-for-sale (AFS) financial assets

The Group has investments in unlisted securities that are not traded in an active market but that are classified as AFS financial assets and stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the AFS reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS reserve is reclassified to the income statement.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in the income statement are determined based on the amortised cost of the monetary asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 8 – INVESTMENT SECURITIES (CONT.)

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

In addition to those outlined above, the Group's general accounting policies applicable to financial instruments are outlined in note 1.

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Trading Securities		
- Corporate bonds	**-**	86
Available for sale investment securities		
- Government bonds	**-**	11,065
- Corporate bonds	**1,197**	2,111
Held to maturity investment securities		
- Government bonds	**-**	57,635
Total investment securities	**1,197**	70,897

NOTE 9 – RECEIVABLES

Trade receivables

Trade receivables are amounts comprised primarily of servicing receivables earned in the ordinary course of business across the Group.

Other debtors

This balance comprises various other sundry balances which management do not consider being core to the Group's business.

Trail commission assets

Trail commissions receivable that are payable to third parties. See note 18 for trail commission liabilities.

	As at 31 December 2015 $'000	As at 31 December 2014 $'000
Trail commission deed receivables	**4,221**	7,465
Trade receivables[1]	**56,456**	40,975
Other debtors[2]	**10,010**	115,560
Total receivables	**70,687**	164,000

Notes

1 – Balance includes $1.9m of lease receivables, for which an impairment provision of $1.7m has been provided during the year. $21m of the trade receivable 2014 comparative balance has been reclassified (primarily from other debtors) to more accurately reflect the nature of the balance.

2 – Other debtors as at 31 December 2014 included a $101m receivable due to a loan portfolio sale recorded. $21m of the other debtors 2014 comparative balance has been reclassified to trade receivables to more accurately reflect the nature of the balance.

NOTE 10 – LOANS AND ADVANCES

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortised cost using the effective interest rate method. They arise when the Group provides money directly to a debtor with no intention of selling the contract.

Debt securities acquired which are categorised as loans and receivables are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost and interest income is recognised in the income statement using the effective interest rate method.

Deferred transaction costs

Transaction costs representing set up costs specific to the trusts are capitalised on the balance sheet as part of loans and advances. These costs are amortised to the income statement in line with the reduction in the underlying mortgage portfolio as part of the effective interest rate on the mortgage receivables.

	As at 31 December 2015 $'000	As at 31 December 2014 $'000
Loans and advances residing in securitised trusts	**2,348,819**	2,161,624
Loans and advances residing in funding warehouses	**2,635,702**	1,622,794
Loans and advances residing in corporate entities	**667,739**	179,242
Total loans and advances	**5,652,260**	3,963,660
Loans and advances by product		
Residential mortgages	**4,507,182**	3,626,590
Auto and equipment finance	**414,093**	81,955
Point-of-sale finance	**107,842**	6,100
Personal loans	**457,385**	72,290
Other loans and advances to customers	**165,758**	176,725
Total loans and advances	**5,652,260**	3,963,660
Specific impairment provision		
Opening balance[1]	**11,922**	6,933
Provided for during the year	**11,801**	7,275
Loan assets written-off, previously provided for	**(5,259)**	(2,612)
Loan assets sold, previously provided for[2]	**(4,763)**	(618)
Losses reversed	**(1,856)**	–
Effect of currency translation differences	**393**	944
Specific impairment provision	**12,238**	11,922
Collective provision		
Opening balance[1]	**5,812**	11,612
Provided for during the year	**13,417**	1,130
Loan assets written-off, previously provided for[1]	**(1,706)**	(882)
Loan assets sold, previously provided for[1,2]	**(5,634)**	(6,068)
Effect of currency translation differences	**165**	20
Collective provision	**12,054**	5,812
Total impairment provisions	**24,292**	17,734

Notes

1 – The 2014 comparative balances have been reclassified to reflect the split between the collective and specific provision.

2 – Balances primarily relate to loan portfolio sales in South Korea.

In addition to the above, as mentioned in note 9, an additional impairment provision of $1.7m has been provided during the year ended 31 December 2015 relating to leases receivables (31 December 2014: $nil).

Please refer to risk management disclosures relating to credit risk in note 30 for further information on the management of and exposure to credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 11 – OTHER INVESTMENTS

Investments classified as loans and receivables

This balance is primarily comprised of a number of debt portfolio investments held by the Group. These are accounted for using amortised cost accounting. See note 5 for further information on amortised cost accounting.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. In 2014 the Group consolidated two Pepper managed investment funds which carried a number of investments at FVTPL. During 2015, the two investment funds were deconsolidated.

	As at 31 December 2015 $'000	As at 31 December 2014 $'000
Investments classified as loans and receivables	**30,544**	24,206
Collateral repossessed	**7,162**	6,987
Investments held at fair value through profit or loss	**–**	18,819
Other investments[1]	**4,726**	5,124
Total other investments	**42,432**	55,136

Note

1 – Other investments primarily include equity investments and interests in managed funds.

NOTE 12 – OTHER ASSETS

Other assets comprise various sundry balances which management do not consider being core to the Group's business.

	As at 31 December 2015 $'000	As at 31 December 2014 $'000
Prepayments[1]	**3,717**	3,424
Property related security deposits	**3,947**	3,445
Other	**5,738**	1,868
Total other assets	**13,402**	8,737

Note

1 – $3.4m of the 31 December 2014 comparative balance for prepayments has been reclassified to 'property related security deposits' to more accurately reflect the nature of the balance.

NOTE 13 – INVESTMENT IN ASSOCIATES

General

Associates are all entities over which the Group has significant influence but not control or joint control. 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.

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the income statement, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of an investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the income statement in the period in which the investment is acquired.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 14.

NOTE 13 – INVESTMENT IN ASSOCIATES (CONT.)

Prime Credit Holdings Limited

On 6 May 2015, the Group acquired a 12% interest in Prime Credit Holdings Limited, a consumer finance business in Hong Kong and China from Standard Chartered Bank for a consideration of $65.9m US dollars. This investment has been classified as an investment in an associate due to the Group's significant involvement in the financial and operating policy decisions, including Board representation of Prime Credit Holdings Limited.

The Prime Credit Group's reporting currency is Hong Kong dollars and Pepper's investment in Prime Credit Holdings Limited is held in Hong Kong dollars and translated into the Group's reporting currency (AUD) at each reporting date. The summarised financial information presented below in accordance with AASB 12 is the AUD equivalent amounts.

			Ownership % and voting power held by the Group	
Name of associate	**Principal activity**	**Place of incorporation**	**31 December 2015**	31 December 2014
Prime Credit Holdings Ltd	Financing	Hong Kong	12%	–

Prime Credit Group's summarised financial information:	**31 December 2015 $'000**	31 December 2014 $'000
Balance Sheet		
Current assets	**208,397**	–
Non-current assets	**1,730,698**	–
Total Assets	**1,939,095**	–
Current liabilities	**(48,258)**	–
Non-current liabilities	**(1,126,479)**	–
Total Liabilities	**(1,174,737)**	–
Net assets	**764,358**	–
Income statement		
Revenue	**180,811**	–
Profit after tax	**26,188**	–
Other comprehensive income	**(4,813)**	–
Total comprehensive income	**21,375**	–
Reconciliation to carrying amounts:		
Carrying amount of Investment	**94,075**	–
Group's share of profit after tax for the period	**3,143**	–
Group's share of net assets (12% of Prime Credit Group's net assets)	**91,723**	–
Additional capitalised costs	**2,352**	–
Total capitalised cost of Investment	**94,075**	
Dividends received from Prime Credit Holdings Ltd	**$nil**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 14 – INTANGIBLE ASSETS AND GOODWILL

Nature of intangible assets

The intangible assets of the Group are best described as follows:

- *Goodwill* – recognised as the cost over and above the identifiable net assets on acquisition of Pepper Property Group and the Oakwood servicing business in the UK.
- *Mortgage servicing rights* – The mortgage servicing rights relate to servicing contracts held by the servicing business acquired in the UK.
- *South Korean banking registration* – The registration gives the South Korea Savings Bank the right to operate as a mutual savings bank in South Korea for an indefinite period of time. This was recognised on acquisition of the bank.
- *Licence fees and software* – Capitalised information technology costs.

	Licence fees and software $'000	Mortgage servicing rights $'000	South Korean mutual savings bank registration $'000	Intangible assets (excluding Goodwill) $'000	Goodwill $'000	Total $'000
Net book value at 31 December 2013	2,928	10,403	23,521	36,852	22,871	59,723
Costs capitalised during the year	9,283	–	–	9,283	–	9,283
Disposal write offs	(374)	–	–	(374)	–	(374)
Amortisation expense	(1,725)	(1,209)	–	(2,934)	–	(2,934)
Effect of currency translation differences	221	(375)	314	160	950	1,110
Net book value at 31 December 2014	10,333	8,819	23,835	42,987	23,821	66,808
At 1 January 2015						
Gross carrying amount	14,472	10,291	23,835	48,598	23,821	72,419
Accumulated amortisation	(4,139)	(1,472)	–	(5,611)	–	(5,611)
Net book value at 1 January 2015	**10,333**	**8,819**	**23,835**	**42,987**	**23,821**	**66,808**
Costs capitalised during the year	**5,457**	**-**	**-**	**5,457**	**-**	**5,457**
Disposal write offs	**(70)**	**-**	**-**	**(70)**	**-**	**(70)**
Amortisation expense[1]	**(4,553)**	**(5,308)**	**-**	**(9,861)**	**-**	**(9,861)**
Effect of currency translation differences	**(775)**	**840**	**1,096**	**1,161**	**947**	**2,108**
Net book value at 31 December 2015	**10,392**	**4,351**	**24,931**	**39,674**	**24,768**	**64,442**
Made up of:						
Gross carrying amount	**18,911**	**5,614**	**24,931**	**49,456**	**24,768**	**74,224**
Accumulated amortisation	**(8,519)**	**(1,263)**	**-**	**(9,782)**	**-**	**(9,782)**
Net book value at 31 December 2015	**10,392**	**4,351**	**24,931**	**39,674**	**24,768**	**64,442**

Note

1 – Mortgage servicing rights' amortisation includes $5.1m of amortisation expense relating to the disposal of servicing rights recorded during the year, offset by $0.7m of foreign exchange arising on the disposal of the intangible asset.

Accounting policies

Amortisation and useful lives

The Group amortises intangible assets using the straight-line method over the following periods:

- Software costs and licence fees – 2-3 years.
- Mortgage servicing rights – 10 years.
- South Korean Mutual Banking Registration – indefinite life (not amortised).
- Goodwill – indefinite life (not amortised).

NOTE 14 – INTANGIBLE ASSETS AND GOODWILL (CONT.)

Accounting policies (cont.)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

Mortgage servicing rights and South Korean banking registration

Both of these intangible assets have been acquired through business combinations and were initially recognised at their fair value on the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, the servicing rights, which have a finite life, are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The South Korean mutual banking registration (KMBR) is considered to have an indefinite useful life as it is expected to contribute future economic benefits to the Group indefinitely through the right to operate as a savings bank established under the mutual savings bank act of the Republic of Korea. The KMBR, being an indefinite life intangible, is carried at cost less accumulated impairment losses. The KMBR is allocated to a cash-generating unit for impairment testing purposes. Before recognition of impairment losses, the carrying amount of the KMBR was allocated to the South Korean cash-generating unit and collectively compared to the value in use of the South Korean cash generating unit.

Testing for impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Indefinite life intangible assets

Cash Generating Unit (CGU)	Pepper Korea	Pepper Property Group	United Kingdom – servicing
Nature of intangible asset	Banking registration	Goodwill	Goodwill
Recoverable amount methodology used	Value in use	Value in use	Value in use
Carrying amount of intangible asset ($'000)	24,931	7,703	17,065
Headroom before impairment ($'000)	113,560	30,851	128,576
Headroom (%)	455%	401%	753%
Key input	Cash flow forecast	Cash flow forecast	Cash flow forecast
Valuation assumptions used:			
– Forecast period	3 years	3 years	3 years
– Average revenue growth rate	50.58%	10.61%	10.39%
– Long-term growth rate (beyond year 3)	0.60%	2.00%	0.40%
– Discount rate applied	11.10%	11.40%	10.30%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 14 – INTANGIBLE ASSETS AND GOODWILL (CONT.)

Testing for impairment (cont.)

Approach followed to determine the value of assumptions used

Assumption	Approach in determining value
Forecast period	The forecast period is the period over which management consider forecasting most reliable (and is consistent with the Group's approach to forecasting).
Average revenue growth rates	This is based on management's expectation of the cash generating unit's development in the market over the 3 year period when considering past performance.
Terminal growth rate	Industry average long term growth rate, consistent with external sources of data and economic forecasts.
Discount rate	Reflect specific risks relating to the relevant segments and the countries in which they operate.

The Group performed sensitivity analysis and stress testing of the above assumptions for all cash generating units. As a result of the testing performed, Directors believe, as at 31 December 2015, any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

NOTE 15 – DEPOSITS

Deposits are the primary source of funding for the South Korean Savings Bank. Subsequent to initial recognition, deposits are measured at amortised cost using the effective interest rate method.

Deposits from customers	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
On call	**9,952**	7,867
Term deposits	**750,342**	324,481
Total deposits	**760,294**	332,348

NOTE 16 – TRADE AND OTHER PAYABLES

Trade payables

Trade payables are unsecured payables relating to expenses arising in the ordinary course of business. They are usually paid within 30 days of recognition.

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Trade payables	**14,692**	15,964
Accrued expenses	**10,733**	14,918
Total trade and other payables	**25,425**	30,882

NOTE 17 – BORROWINGS

All borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing borrowings are measured at amortised cost using the effective interest method. For further detail on the amortised cost basis of accounting see note 5 revenue and expenses.

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Securitised funding facility	**2,577,597**	2,288,292
Warehouse facility – secured	**2,585,927**	1,795,673
Corporate debt facility	**38,001**	98,085
Total borrowings	**5,201,525**	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. Corporate debt facilities are secured over certain assets of the Group.

Non-recourse facilities

During the year ended 31 December 2015, $1.2bn of new securitised funding facilities were obtained (31 December 2014: $1.19bn) and $116m of existing securitised funding facilities was repaid in full (31 December 2014: $109m).

Corporate facilities

As at 31 December 2015 the Group had an undrawn balance of $92m on its corporate debt facility (31 December 2014: $16m).

NOTE 18 – OTHER LIABILITIES

Settlement balances

Settlement balances arising from the timing of funds collected by the Group yet to be passed onto customers. These balances are predominantly held within the Group's servicing and the South Korean banking businesses.

Other

This balance is made up of a large number of individually immaterial amounts. Among the drivers of this balance are accruals built up within Pepper's servicing businesses which will be subsequently passed on to customers.

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Trail commissions payable to third parties	**8,504**	13,165
Derivatives liabilities carried at fair value	**1,954**	867
Settlement balances	**69,726**	10,586
Other	**36,642**	21,119
Total other liabilities	**116,826**	45,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 19 – LEASES WHERE THE GROUP IS THE LESSEE

Accounting policy

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

Operating leases

Operating leases primarily relate to the lease of buildings with lease terms generally being of between 2 and 10 years. Most operating lease contracts over 2 years contain clauses for annual yearly market rental reviews. The Group does not have an option to purchase the leased properties at the expiry of the lease periods.

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

Future minimum lease payments under non-cancellable operating leases

Future operating lease payments	**Year ended 31 December 2015 $'000**	Year ended 31 December 2014 $'000
Not later than 1 year	**7,357**	6,759
Later than 1 year and not later than 5 years	**15,420**	14,278
Later than 5 years	**365**	2,244
Total commitments	**23,142**	23,281

NOTE 20 – PROVISIONS

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Bonuses and other employee benefits

Employee benefit liabilities are recognised for benefits accruing to employees in respect of wages and salaries, bonuses, annual leave and long service leave and are recognised in respect of employees' services up to the end of the reporting period. The measurement of such employee benefit liabilities is as follows:

- Short-term employee benefits (those expected to be settled within 12 months after the end of the reporting period) are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.
- Long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

	Bonuses and other employee benefits $'000	**Other provisions $'000**	**Total $'000**
Balance at 31 December 2013	11,377	146	11,523
Increase in provisions	29,877	–	29,877
Provisions utilised	(21,736)	–	(21,736)
Exchange differences	107	–	107
Balance at 31 December 2014	19,625	146	19,771
Increase in provisions	**27,988**	**16**	**28,004**
Provisions utilised	**(18,209)**	**(38)**	**(18,247)**
Exchange differences	**90**	**–**	**90**
Balance at 31 December 2015	**29,494**	**124**	**29,618**
Expected timing for utilisation of provisions:			
Less than 12 months	17,978	146	18,124
Greater than 12 months	1,647	–	1,647
Balance at 31 December 2014	19,625	146	19,771
Less than 12 months	**27,051**	**108**	**27,159**
Greater than 12 months	**2,443**	**16**	**2,459**
Balance at 31 December 2015	**29,494**	**124**	**29,618**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 21 – ISSUED CAPITAL

	31 December 2015		31 December 2014	
As at	**Number of shares '000**	**$'000**	Number of shares '000	$'000
Ordinary shares	**181,122**	**296,065**	182	104,477
A class shares	**–**	**–**	27	2,895
B class shares	**–**	**–**	5	–
G class redeemable convertible preference shares	**–**	**–**	21	36,145
	181,122	**296,065**	235	143,517

Ordinary shares and A class shares carry one vote per share and carry the right to dividends. The B class shares carry no voting rights but do carry the right to dividends. Class G redeemable convertible preference shares are entitled to receive a discretionary preference dividend before any dividends are declared to the ordinary shareholders.

Number of shares	**Fully paid ordinary shares '000**	**Fully paid A class shares '000**	**Fully paid B class shares '000**	**G class preference shares '000**	**Total '000**
As at 31 December 2013	175	27	5	–	207
Shares issued	7	–	–	21	28
As at 31 December 2014	**182**	**27**	**5**	**21**	**235**
Redemptions	**–**	**–**	**–**	**(21)**	**(21)**
Shares issued	**14**	**7**	**–**	**–**	**21**
As at 30 June 2015	**196**	**34**	**5**	**–**	**235**
Conversion to ordinary shares	**39**	**(34)**	**(5)**	**–**	**–**
Shares before IPO	**235**	**–**	**–**	**–**	**235**
Exchange of existing shares on IPO date[1]	**117,717**	**–**	**–**	**–**	**117,717**
New shares issued as part of IPO	**53,242**	**–**	**–**	**–**	**53,242**
Shares issued under share plans	**10,163**	**–**	**–**	**–**	**10,163**
As at 31 December 2015	**181,122**	**–**	**–**	**–**	**181,122**

Note

1 – In July 2015 a share split occurred which resulted in the conversion of 235,434 shares into 117,717,000 new ordinary shares without a change in resources.

During the first half of 2015, the Company issued seven thousand new A class shares and fourteen thousand new ordinary shares, and redeemed twenty one thousand G class redeemable convertible preference shares.

On 31 July 2015, the Group embarked on an initial public offering ("IPO") and listed on the Australian Securities Exchange ("ASX"). On the date of the IPO, all outstanding A and B class shares, together with existing ordinary shares, were converted into new ASX listed ordinary shares in Pepper Group Limited on a 500 for 1 basis, resulting in 17m new ordinary shares exchanged for the A class shares and 2.5m exchanged for the B class shares.

In addition to the share conversion outlined above, the Group issued 53.2m new ordinary shares at an offer price of $2.60 per share, raising an additional $138.4m of capital. The net impact of the issuance was $129.6m after transaction costs of $8.8m post tax ($12.6m less deferred tax of 3.8m) were deducted.

NOTE 21 – ISSUED CAPITAL (CONT.)

During the year, the Company also issued 10.163m shares under its various employee share schemes and gift offer. Further information on shares under option is included in note 27.

Issued capital	Fully paid ordinary shares $'000	Fully paid A class shares $'000	Fully paid B class shares $'000	G class preference shares $'000	Total $'000
As at 31 December 2013	99,263	2,844	–	–	102,107
Shares issued	5,214	–	–	36,145	41,359
Transfer to company share option plan	–	51	–	–	51
As at 31 December 2014	**104,477**	**2,895**	**-**	**36,145**	**143,517**
Redemptions	**-**	**-**	**-**	**(36,145)**	**(36,145)**
Shares issued	**24,825**	**2,187**	**-**	**-**	**27,012**
As at 30 June 2015	**129,302**	**5,082**	**-**	**-**	**134,384**
Conversion to ordinary shares	**5,082**	**(5,082)**	**-**	**-**	**-**
Issued capital before IPO	**134,384**	**-**	**-**	**-**	**134,384**
New shares issued as part of IPO	**129,636**	**-**	**-**	**-**	**129,636**
Shares issued under share plans	**32,045**	**-**	**-**	**-**	**32,045**
As at 31 December 2015	**296,065**	**-**	**-**	**-**	**296,065**

NOTE 22 – OTHER EQUITY AND OTHER RESERVES

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Employee benefits reserve	**6,854**	2,090
Common control reserve	**(18,653)**	(18,653)
Treasury shares	**(10,533)**	(2,734)
Total other equity	**(22,332)**	(19,297)
Currency translation reserve[1]	**18,839**	7,547
Cashflow hedge reserve	**(1,629)**	(429)
Total other reserves	**17,210**	7,118

Note

1 – The 2015 currency translation reserve balance includes $0.5m of other comprehensive income from an associate (31 December 2014: $nil).

Equity/Reserve	Nature
Employee benefits reserve	The employee benefits reserve has arisen as a result of equity settled share-based payments accounted for under AASB 2. Further information about share-based payments to employees is set out in note 27.
Common control reserve	The common control reserve arose as a result of a transaction between entities with common control.
Treasury shares	Treasury shares represent shares held on trust for employee share schemes and are deducted from shareholders' equity.
Currency translation reserve	The currency translation reserve represents the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, net of the effects of hedging.
Cash flow hedge reserve	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. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated in the cash flow hedge reserve will be reclassified to the income statement only when the hedged transaction affects the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 23 – MATERIAL SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation is also their principal place of business.

			Ownership interest held by the Group as at	
Name of subsidiary	**Principal activity**	**Place of incorporation**	**31 December 2015**	31 December 2014
Pepper Group Limited	Financial services – lending and servicing	Australia	100%	100%
Pepper Finance Corporation Limited	Financial services – lending and servicing	Australia	100%	100%
Pepper Property Group Pty Limited	Property – advisory	Australia	100%	100%
Pepper Europe (UK) Limited	Financial services – servicing	United Kingdom	100%	100%
Pepper (UK) Limited	Financial services – lending and servicing	United Kingdom	100%	100%
Pepper Asset Services S L	Financial services – servicing	Spain	100%	100%
Pepper Finance Corporation S L	Financial services – lending	Spain	100%	100%
Pepper Finance Corporation (Ireland) DAC	Financial services – lending and servicing	Ireland	100%	100%
Pepper Savings Bank Co. Limited	Financial services – lending	Korea	100%	100%

There are no non-wholly owned subsidiaries of the Group that have non-controlling interests that are material to the Group.

NOTE 24 – STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements. The Group considers all special purpose entities in which it has interests to be structured entities.

Consolidated structured entities

Pepper's funding strategy is primarily based on its use of long term limited-recourse loan funding structures. Typically, loans are initially funded via wholesale bank debt facilities and then periodically refinanced through the issuance of term securitisations in debt capital markets. As a result of this, and as a result of Pepper controlling them, most of these entities are consolidated.

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor.

NOTE 24 – STRUCTURED ENTITIES (CONT.)

Non-consolidated structured entities

The Group's interests in non-consolidated structured entities can be categorised as follows:

- Investments in non-Pepper special purpose vehicles (SPVs). Each of the SPVs Pepper has an investment in, is designed to invest in and manage consumer, commercial or residential loan portfolios. The SPVs' finance themselves by issuing note securities which entitle the holder to a specified stream of cash flows from the loan portfolios.
- Receivables earned in the course of servicing non-Pepper SPVs.

The nature and extent of the Group's interests, as well as the Group's maximum exposure to loss, can be summarised as follows:

At 31 December 2015	**Commercial $'000**	**Residential $'000**	**Consumer $'000**	**Total $'000**
Balance Sheet				
Assets				
Investments in non-consolidated SPVs[1]	**30,544**	**1,295**	**–**	**31,839**
Investments in non-consolidated SPVs[2]	**4,228**	**358**	**378**	**4,964**
Total assets	**34,772**	**1,653**	**378**	**36,803**
Maximum exposure to loss	**34,772**	**1,653**	**378**	**36,803**

At 31 December 2014	Commercial $'000	Residential $'000	Consumer $'000	Total $'000
Balance Sheet				
Assets				
Investments in non-consolidated SPVs[1]	24,206	–	–	24,206
Investments in non-consolidated SPVs[2]	983	376	336	1,695
Total assets	25,189	376	336	25,901
Maximum exposure to loss	25,189	376	336	25,901

Notes

1 – Investments in non-consolidated SPVs are reported in the Group's other investments balance, refer to Note 11.

2 – Receivables from non-consolidated SPVs are reported in the Group's trade receivables balance, refer to Note 9.

The Group's maximum exposure to loss is limited to the carrying value of any investments in or receivables from the structured entities, as listed above. There are no additional off balance sheet arrangements with non-consolidated structured entities which would expose the Group to potential loss.

During the year the Group earned interest from its investments, and servicing revenue from servicing contracts with a number of structured entities. Refer to note 5 for further information on revenues earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 25 – RELATED PARTIES

Parent entity

The parent entity of the Group is Pepper Group Limited.

Group entities

Interests in material subsidiaries are outlined in note 23.

Key management personnel compensation

Key management personnel remuneration	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Short term employee benefits	**4,369**	3,050
Post employment benefits	**71**	55
Share-based payments	**457**	1,425
	4,897	4,530

Detailed remuneration disclosures are provided in the remuneration report on pages 23-35.

Transactions with other related parties

Loans to Directors are explained in note 27 to the financial statements. These loans are interest free and have been made in relation to shares held in a Group entity which were exchanged for shares in the Company in connection with the Group's restructure prior to listing on the ASX, acquisition of shares under a legacy employee incentive scheme and the acquisition of shares under the company LTI Plan.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, group entities entered into the following transactions with related parties that are not members of the Group:

Transactions with related parties (excluding employees)	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Fees and other revenue received from associates	**2,956**	–
Interest received from other related parties	**915**	2,879
Fees and other revenue received from other related parties[1]	**9,455**	15,449
Total revenue received	**13,326**	18,328
Interest paid to other related parties[2]	**(3,725)**	(3,805)
Fees and other expenses paid to other related parties	**(337)**	(260)
Total expenses paid	**(4,062)**	(4,065)

Notes

1 – This primarily relates to servicing revenue received from related parties in New Zealand.

2 – This primarily relates to interest paid to related parties who have investments in the debt securities of Pepper's limited recourse vehicles.

Balances held with related parties (excluding employees)	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Receivables due from associates	**2,129**	–
Receivables due from other related parties	**252**	–
Liabilities due to other related parties[1]	**(32,100)**	(30,936)
Total net receivables due from/(due to) related parties	**(29,719)**	(30,936)

Note

1 – This primarily relates to investments into the debt securities of Pepper's limited recourse vehicles by related parties.

NOTE 26 – NOTES TO THE STATEMENT OF CASH FLOWS

Accounting policy

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

Cash at the consolidated level includes the cash balances held in trusts that are controlled entities. The cash balance that is held in trusts can only be used in accordance with the provisions of their respective transaction documents.

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

(a) Reconciliation of cash and cash equivalents	**Year ended 31 December 2015 $'000**	Year ended 31 December 2014 $'000
Cash and cash equivalents held in corporate entities[1]	**225,822**	232,691
Cash and cash equivalents held in limited recourse entities	**329,915**	229,754
Cash and cash equivalents	**555,737**	462,445

Note

1 – $70m of this balance relates to cash and cash equivalents held on trust to be paid on to 3rd parties in Pepper's servicing businesses (31 December 2014: $11m).

(b) Reconciliation of profit for the year to net cash flows from operating activities[1]	**Year ended 31 December 2015 $'000**	Year ended 31 December 2014 $'000
Net profit after tax for the year	**3,405**	37,998
Depreciation and amortisation expenses	**14,055**	6,498
Loan loss expenses	**24,420**	8,406
Share of profit from associates	**(3,143)**	–
Share-based payments	**32,863**	810
Deferred tax asset movement	**(7,442)**	(1,891)
Deferred tax liability movement	**(2,486)**	(7,682)
Current tax liability movement	**(3,841)**	3,544
Receivables	**(6,628)**	(123,308)
Investment securities	**(53)**	25,683
Derivative assets	**(23,080)**	–
Other assets	**55,470**	(52,994)
Loans and advances	**(11,125)**	109,953
Other investments	**(8,151)**	6,048
Deposits	**10,189**	4,213
Trade payables	**1,562**	6,150
Borrowings	**(41,506)**	27,703
Other liabilities	**55,202**	(8,134)
Provisions	**9,503**	8,247
Other movements	**4,323**	(6,203)
Total operating cash movements	**103,537**	45,041

Note

1 – Due to the increased granularity of the 2015 disclosure when compared to the prior period, comparative balances have been reclassified to accurately reflect the nature of the balances being disclosed, in line with the 2015 categories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 27 – SHARE-BASED PAYMENTS

General

The Group provides benefits to employees of the Group through share-based incentives. Employees are paid for their services or incentivised for their performance in part through shares or rights over shares.

Equity-settled share-based payments

During the year a number of equity settled share-based payment plans have been in place. These transactions involve the Group receiving services and compensating the relevant parties via the provision of equity instruments of the Group.

Measurement

As part of the process of accounting for share-based payments the Group is required to measure the fair value of the options granted because it is not possible to reliably measure the fair value of the employee services rendered. The Group has used the Black Scholes valuation technique to estimate the fair value of the equity instruments issued to employees.

Recognition

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

Description of schemes

Scheme	Description	Status
Long-term incentive (LTI) Scheme	The Company has established a LTI Scheme to assist in the motivation, retention and reward of senior management and to align the interests of executives and senior management with the interests of shareholders. The LTI Scheme permits the grant of awards comprising of: • Performance Rights; or • Either Options or Loan Shares. Performance Rights are an entitlement to receive a Share for no consideration upon satisfaction of applicable vesting conditions. Options are an entitlement to acquire a Share upon satisfaction of applicable vesting conditions and payment of an applicable exercise price. Participants will be provided with a loan from the Company for the sole purpose of subscribing for Loan Shares to be held on trust for them subject to satisfaction of applicable vesting conditions and subject to repayment of the loan and with recourse limited to the Loan Shares.	Open
General Legacy Schemes	Under legacy schemes in existence between 2011 and 2015, participants purchased a beneficial interest in shares held on trust. These schemes are closed, have fully vested, and have been fully expensed.	Closed – shares fully vested.
Global Legacy Scheme	Under a separate legacy scheme established in 2015 (the Global Legacy Scheme), participants (or their nominees) have been granted global legacy shares and global legacy units, each issued for nil consideration. These schemes are closed, have fully vested, and been fully expensed but participants are still subject to limited restrictions.	Closed – subject to limited restrictions.
Non-executive Director Options	On 1 July 2015, each of the Non-executive Directors received, for nil consideration, a grant of 75,000 options as part of the Director's remuneration package. Each option entitles the Director to acquire one Share at the price of $2.60. The options will vest in three equal tranches on the 12, 24 and 36 month anniversaries of the grant. The options are not subject to any performance or service conditions.	Open
Employee Gift Offer	During the year, as part of the IPO, shares were offered to certain employees under the Employee Gift Offer for nil consideration in parcels of up to $1,000 in value. The total value of shares gifted was $716,245.	Closed – shares fully vested.

NOTE 27 – SHARE-BASED PAYMENTS (CONT.)

Terms and Conditions for material schemes

Scheme	Terms and Conditions
LTI Scheme	The key management personnel and other senior management are eligible to participate in the LTI scheme. For the year ended 31 December 2015 the awards were delivered using a combination of Performance Rights and a loan to acquire Loan Shares. The 2015 LTI awards are divided into three equal tranches. The relevant performance periods are as follows: • Tranche 1: 1 January 2016 to 31 December 2016 • Tranche 2: 1 January 2017 to 31 December 2017 • Tranche 3: 1 January 2018 to 31 December 2018 Each LTI award will vest based on the performance of the Group in each of the three consecutive financial years (with the first tranche vesting in 2017 in the case of the 2015 and 2016 LTI awards and in 2018 in the case of the 2017 LTI Award). Each participant must be employed by the Group on the relevant vesting date. With the exception of the first tranche of each of the 2015 and 2016 LTI awards, the vesting conditions for the LTI awards will be apportioned: • 50%, to an adjusted net profit after tax (NPAT) growth performance condition, and • 50%, to a return on equity (ROE) performance condition. For the NPAT performance condition of the 2015 LTI awards, vesting will occur on achievement of a 25% increase, or greater, in NPAT for 2016 relative to 2015.
General legacy schemes	The Group has previously established a number of employee incentive schemes (each a Legacy Scheme) for employees of the Group in Australia and the United Kingdom. While the shares are held in trust, participants are entitled to any income on those Shares but will not be entitled to vote those shares. The Incentive Scheme Trustee is entitled to vote the shares held by it on trust.
Global legacy scheme	The benefits issued under the Global Legacy Scheme are subject to voluntary escrow arrangements preventing participants from disposing of their shares for an applicable period. Once the shares are released from escrow, participants will be entitled to direct the Incentive Scheme Trustee to deal with the shares on their behalf (with the exception of certain shares issued under the 2015 General Legacy Scheme which remain subject to forfeiture conditions, which if not satisfied result in forfeiture).
Employee loans	The Group has provided limited-recourse loans to its executives and senior employees enabling them to exercise previously issued options. In accordance with AASB 2 the Group treated these as share options and treasury shares. The exercise date of the options is the date or dates the loans are repaid.

Valuation

The weighted average fair value of the share options granted during the financial year is 43 cents (31 December 2014: $98.66). Options were priced using the Black Scholes option valuation model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations.

Quantitative data

The following settled share share-based payment arrangements were in existence within the Group as at 31 December 2015:

Long-term incentive schemes	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Long term incentive schemes – loan shares	1,361,880	01/07/2015	29/06/2022	$2.60	$0.12
Long term incentive schemes – rights	1,312,055	01/07/2015	n/a	$nil	$0.31

Option Series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Tranche 1 – Non-executive options	100,000	01/07/2015	01/07/2022	$2.60	$0.32
Tranche 2 – Non-executive options	100,000	01/07/2015	01/07/2023	$2.60	$0.44
Tranche 3 – Non-executive options	100,000	01/07/2015	01/07/2024	$2.60	$0.53

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 27 – SHARE-BASED PAYMENTS (CONT.)

Quantitative data (cont.)

The following settled share share-based payment arrangements were in existence within the Group as at 31 December 2014:

Pepper Group share option series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Ordinary shares tranche 2 – January 2011	125	20/01/2011	20/01/2020	–	$41.25
Ordinary shares tranche 3 – January 2011	4,245	20/01/2011	20/01/2020	–	$52.11
Ordinary shares tranche 1 – August 2012	1,363	31/08/2012	20/01/2020	$719.48	$56.31
Ordinary shares tranche 2 – August 2012	1,362	31/08/2012	20/01/2020	$719.48	$145.20
A Class shares – January 2013	7,560	01/01/2013	31/12/2017	$213.00	$15.64
A3 Class shares – October 2013	3,316	25/10/2013	31/12/2017	$257.00	$24.54
A2 Class shares – February 2014	8,722	28/02/2014	31/12/2017	$73.00	$166.43
A4 Class shares – September 2014	2,499	08/09/2014	31/08/2021	$440.00	$30.89

Alteration to vesting conditions of the schemes listed above

On 31 July 2015, the Company listed on the ASX and all share options listed as in existence at 31 December 2014 were deemed to have been exercised. All share options that existed at 31 December 2014 were converted into ordinary shares listed on the ASX on a 500 new ordinary shares for 1 existing option basis. The share-based payment arrangements that were in existence during 2014, disclosed as comparative data above, have not been updated to reflect this alteration.

Movements in shares options during the year

The following reconciles the Group's share options and long incentive (LTI) schemes outstanding at the beginning and end of the year:

	LTI schemes – loan shares		LTI schemes – rights		Other Pepper Group share options	
	Number of units	Exercise price ($)	Number of units	Exercise price ($)	Number of units	Exercise price ($)
At 31 December 2013	–	–	–	–	17,971	247.13
Granted during the year	–	–	–	–	11,222	154.76
Forfeited during the year	–	–	–	–	(3,780)	213.00
Exercised during the year	–	–	–	–	–	–
At 31 December 2014	**–**	**–**	**–**	**–**	**25,413**	**211.42**
Granted during the year	**1,361,880**	**2.60**	**1,312,055**	**–**	**300,000**	**2.60**
Exercised during the year	**–**	**–**	**–**	**–**	**(25,413)**	**211.42**
End of the year	**1,361,880**	**2.60**	**1,312,055**	**–**	**300,000**	**2.60**

NOTE 28 – REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Company, and its related practices:

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Audit or review of the financial statements	**2,116**	1,778
Audit or review of the Initial Public Offering	**1,177**	–
Advisory services	**2,079**	471
Total auditor remuneration	**5,372**	2,249

The auditor of Pepper Group Limited is Deloitte Touche Tohmatsu. It is the Group's policy to employ Deloitte Touche Tohmatsu on assignments additional to their statutory audit duties, in compliance with the Group's independence policies, where Deloitte Touche Tohmatsu's expertise and experience with the Group are important. Additionally some amounts included are paid to PriceWaterhouseCoopers for their role in the audit of other group companies.

NOTE 29 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

For related accounting policies please see note 1. The Group holds the following financial instruments:

Financial assets	Basis of measurement	As at 31 December 2015 $'000	As at 31 December 2014 $'000
Cash and cash equivalents	Amortised cost	**555,737**	462,445
Investment securities – trading securities	Fair value through profit or loss	**–**	86
Investment securities – available for sale securities	Fair value through OCI	**1,197**	13,176
Investment securities – held to maturity securities	Amortised cost	**–**	57,635
Derivative financial assets	Fair value through profit or loss	**23,080**	59,805
Receivables	Amortised cost	**70,687**	164,000
Other investments	Various – See note 11	**35,270**	48,149
Loans and advances	Amortised cost	**5,652,260**	3,963,660
Total financial assets		**6,338,231**	4,768,956

Financial liabilities	Basis of measurement		
Deposits	Amortised cost	**760,294**	332,348
Trade and other payables	Amortised cost	**25,425**	30,882
Derivative financial liabilities	Fair value through profit or loss	**1,954**	867
Borrowings	Amortised cost	**5,201,525**	4,182,050
Total financial liabilities		**5,989,198**	4,546,147

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)	31 December 2015 $'000	31 December 2014 $'000
Investment securities	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, appropriate discount rates.	**1,197**	13,262
Interest rate swaps	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, appropriate discount rates.	**(1,954)**	(867)
Cross currency interest rate swaps	Level 2	Discounted cash flow. Forward exchange rates, contract forward rates, appropriate discount rates.	**23,080**	59,805

In the year to 31 December 2015 there has been no change in the fair value hierarchy or the valuation techniques applied to interest rate or foreign exchange derivatives.

For further information on the use of derivatives please see the financial risk management note below.

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 (level 3) 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 31 December 2015		As at 31 December 2014	
	Carrying value $'000	**Fair value $'000**	Carrying value $'000	Fair value $'000
Loans and advances	**5,652,260**	**5,658,619**	3,963,660	3,963,660
Other investments	**30,544**	**31,478**	24,206	24,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 30 – FINANCIAL RISK MANAGEMENT

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year income statement information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Recognised financial assets and liabilities not denominated in Australian dollars. Foreign currency denominated profits or losses.	Cash flow forecasting Sensitivity analysis.	Cross currency interest rate swaps. Cash flow management and matching.
Market risk – interest rate	Mismatch in interest rates between assets and liabilities.	Sensitivity analysis.	Cross currency interest rate swaps. Interest rate swaps.
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments, loans and advances.	Credit risk analysis. Credit ratings.	Diversification. Strong collections/portfolio management.
Liquidity risk	Borrowings and other liabilities.	Rolling cash flow forecasts.	Availability of committed credit lines and borrowing facilities. Securitisation. Structuring terms of obligations.

Risk management program

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit and 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; the process of identification and management of risks (including financial controls and systems). The Audit and 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.

Derivatives and hedge accounting

Derivatives are used for hedging financial risks as part of the Group's approach to risk management. They are not used for speculative purposes.

During the period the Group held interest rate and cross currency interest rate derivatives for risk management purposes that meet the required documentation and hedge effectiveness criteria for cash flow hedge accounting.

The Group use cash flow hedges to hedge cash flow risk associated with: funding received in foreign currencies, and at variable interest rates.

Cash flow hedges are accounted for as follows:

- day 1 costs are priced into the derivative and capitalised and amortised over the life of the hedged item.
- the fair value gain or loss associated with the effective portion of the derivative is recognised initially in other comprehensive income, and then recycled to the income statement in the same periods the hedged item affects the income statement.
- Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

Derivatives and hedge accounting (cont.)

Quantitative information

	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Derivative assets		
Cross currency interest rate swaps – Cash flow hedges	**23,080**	–
Cross currency interest rate swaps – economic hedges FVTPL	**–**	59,805
Total derivative assets	**23,080**	59,805
Derivative liabilities		
Interest rate swaps – cash flow hedges	**1,870**	692
Interest rate swaps – economic hedges FVTPL	**84**	175
Total derivative liabilities	**1,954**	867
Ineffectiveness recorded in the income statement	**127**	145

Credit risk

Credit risk arises from the financial assets outlined below, as well as credit exposures to customers, including outstanding receivables.

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 exposure to credit risk at the reporting date was:

	31 December 2015 $'000	31 December 2014 $'000
Cash and cash equivalents	**555,737**	462,445
Investment securities	**1,197**	70,897
Derivative financial assets	**23,080**	59,805
Receivables	**70,687**	164,000
Other investments subject to credit risk	**34,704**	24,206
Financial assets other than loans and advances	**685,405**	781,353
Gross loans and advances at amortised cost	**5,639,700**	3,939,641
Total potential exposure to credit risk	**6,325,105**	4,720,994

As at 31 December 2015, over 82% of the Group's cash and cash equivalents are held with banks or financial institutions with a credit rating of AA- or better (31 December 2014: over 95%).

In addition to the balances in the table above, the Group had $610m of undrawn customer facilities as at 31 December 2015 (31 December 2014: $440m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

Credit risk (cont.)

Distribution of financial assets by credit quality

	31 December 2015 $'000	31 December 2014 $'000
Neither past due or impaired		
Gross loans and advances	**5,160,152**	3,375,205
Financial assets other than loans and advances	**683,499**	781,353
Past due but not impaired		
Gross loans and advances	**438,565**	534,873
Impaired		
Financial assets other than loans and advances	**1,906**	–
Gross loans and advances	**40,983**	29,563
	6,325,105	4,720,994

The majority of the Group's exposure to loans and advances is limited, as they are legally owned by the special purpose entities (trusts) 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.

As distinct from the above, Pepper South Korea's loan originations are funded on-balance sheet primarily through retail customer deposits and loan portfolio sales. 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

	31 December 2015 $'000	31 December 2014 $'000
Neither past due or impaired		
Australia	**4,308,310**	3,206,875
International	**851,842**	168,330
Past due but not impaired		
Australia	**434,946**	534,365
International	**3,619**	508
Impaired		
Australia	**19,765**	7,453
International	**21,218**	22,110
	5,639,700	3,939,641

Loans and advances past due but not impaired

Days past due	**31 December 2015 $'000**	31 December 2014 $'000
Less than 30 days	**285,751**	371,482
31 to 90 days	**96,995**	88,467
More than 90 days	**55,819**	74,924
	438,565	534,873

NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

Liquidity and capital 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 South Korea, 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 ($4.577bn at 31 December 2015 and $3.672bn 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 31 December 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	**760,294**	**9,952**	**68,123**	**534,791**	**137,239**	**–**	**750,105**
Payables and other liabilities	**25,425**	**3,839**	**25,425**	**6,485**	**257**	**–**	**36,006**
Borrowings	**895,772**	**–**	**7,917**	**741,534**	**175,515**	**–**	**924,966**
Derivative liabilities	**1,954**	**–**	**109**	**303**	**1,286**	**398**	**2,096**
Total	**1,683,445**	**13,791**	**101,574**	**1,283,113**	**314,297**	**398**	**1,713,173**

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 flows1 $'000
Financial liabilities							
Deposits	332,348	3,368	28,345	222,453	81,506	–	335,672
Payables and other liabilities	30,882	–	30,882	–	–	–	30,882
Borrowings	509,959	–	5,525	295,819	253,864	–	555,208
Derivative liabilities	867	–	–	654	213	–	867
Total	874,056	3,368	64,752	518,926	335,583	–	922,629

Note

1 – Contractual cash flows include interest payable.

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. The Group must hold a portion of highly liquid assets on their balance sheet to meet liquidity requirements in South Korea. The Group must also hold regulatory capital against its assets in South Korea. The Group is currently required to maintain a minimum South Korean regulatory Bank for International Settlements (BIS) capital ratio of 6%. As of 31 December 2015, the Group is compliant with the regulatory requirement.

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.

Interest rate risk – Cash flow and fair value

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

Market risk (cont.)

Interest rate risk – Sensitivity analysis

As outlined above, the majority of the Group's liabilities are issued through warehouse facilities and term securitisations in special purpose entities).Under such arrangements, the repayment profile of the bonds is matched to the repayments collected from the loan assets.

For illustrative purposes the Group has calculated the impact of a potential increase or decrease in borrowing costs in limited recourse entities for the year in the event of a +/- 10bps change in interest rates as shown in the table below:

10bps +/-	**31 December 2015 $'000**	31 December 2014 $'000
Borrowing costs in special purpose entities	**3,337**	2,658

Any impact on funding costs in the special purpose entities as a result of changes to interest rates would be offset by a corresponding +/- impact on interest revenue proportionate to assets held.

The remainder of the Group's loan portfolio and liabilities are held in corporate entities (predominantly Pepper South Korea). The impact of a potential +/- 10bps change in interest rates on interest revenue and borrowing costs on balances held by corporate entities for the year is set out in the table below:

10bps +/-	**31 December 2015 $'000**	31 December 2014 $'000
Corporate interest revenue	**661**	338
Corporate funding costs	**(596)**	(366)
Total impact on corporate interest	**65**	(28)

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. The Group 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 currently 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 or decrease in profit after tax for the year due to a +/- 10% variance in the exchange rates.

10% variance +/-	**31 December 2015 $'000**	31 December 2014 $'000
Change in AUD : EUR exchange rate	**3,720**	2,259
Change in AUD : GBP exchange rate	**626**	379
Change in AUD : KRW exchange rate	**876**	45

NOTE 31 – PARENT ENTITY INFORMATION

Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Income Statement	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Total revenue	**110,446**	102,853
Total expenses	**(105,392)**	(66,660)
Income tax expenses	**(2,168)**	(11,549)
Profit after tax for the period	**2,886**	24,644
Total comprehensive income	**1,919**	25,611

Balance Sheet	As at 31 December 2015 $'000	As at 31 December 2014 $'000
Assets		
Current assets	**194,397**	223,440
Total assets	**493,498**	414,225
Liabilities		
Current liabilities	**5,532**	16,252
Total liabilities	**94,457**	168,526
Equity		
Issued capital	**296,065**	143,517
Treasury shares	**(3,444)**	–
Equity settled employee benefits reserve	**6,126**	1,801
Foreign currency translation reserve	**–**	967
Retained earnings	**100,294**	99,414
Total equity excluding non-controlling interests	**399,041**	245,699
Non-controlling interests	**–**	–
Total equity	**399,041**	245,699

Guarantees, contingent liabilities and contingent assets

At 31 December 2015 the Company has provided $26.5m in financial guarantees over funding received by entities within the Group (31 December 2014: $nil).

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

NOTE 32 – MATTERS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

ADDITIONAL COMPANY INFORMATION

Pepper Group Limited is a public company, incorporated in Australia and operating in Australia and internationally.

Registered office
Level 9, 146 Arthur Street
North Sydney NSW 2060
Tel: 1800 737 737

Principal place of business
Level 9, 146 Arthur Street
North Sydney NSW 2060
Tel: 1800 737 737

SHAREHOLDER INFORMATION

Share Capital
Pepper has on issue 181,122,106 fully paid ordinary shares held by 498 holders as at 7 April 2016.

Voting Rights
Pepper's fully paid ordinary shares carry voting rights of one vote per share.

Twenty largest shareholders as at 4 April 2016
The following table sets out the top 20 registered holders of shares:

Rank	Holder name	Balance at 7 April 2016	% of Issued Capital
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,233,387	16.14
2.	SEUMAS JAMES DAWES	17,919,250	9.89
3.	CITICORP NOMINEES PTY LIMITED	16,181,676	8.93
4.	CVI CVF II LUX SECURITIES TRADING SARL	10,952,500	6.05
5.	J P MORGAN NOMINEES AUSTRALIA LIMITED	9,463,449	5.22
6.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	8,369,402	4.62
7.	CULHANE FAMILY INVESTMENTS PTY LIMITED <CULHANE FAMILY A/C>	8,196,000	4.53
8.	ROSE CAPITAL PTY LTD <ROSE INVESTMENT A/C>	7,746,000	4.28
9.	UBS NOMINEES PTY LTD	7,577,398	4.18
10.	ECCLESTON CORPORATION PTY LTD <THE TAMWORTH A/C>	7,263,731	4.01
11.	MILAN MARKOVIC	3,869,116	2.14
12.	CPU SHARE PLANS PTY LTD <PEP GLO CONTROL A/C>	3,178,850	1.76
13.	SMALLCO INVESTMENT MANAGER LTD <THE CUT A/C>	3,108,500	1.72
14.	SARAH JANE HOLMES	2,917,500	1.61
15.	EJF DEBT OPPORTUNITIES MASTER FUND L.P.	2,701,500	1.49
16.	CPU SHARE PLANS PTY LTD <PEP GLR UNALLOCATED A/C>	2,162,000	1.19
17.	WILLIAM CAMERON BEAUMONT SMALL <THE WCB SMALL FAMILY A/C>	2,117,500	1.17
18.	CPU SHARE PLANS PTY LTD <PEP GEN CONTROL A/C>	1,920,500	1.06
19.	NATIONAL NOMINEES LIMITED	1,834,435	1.01
20.	JEROME BOOTH	1,742,250	0.96
TOTAL		**148,454,944**	**81.96**

Distribution of Members and their holdings
The following table summarises the distribution of Pepper's listed shares as at 7 April 2016:

Range	Total holders	Units	% of issued capital
1 - 1,000	81	42,271	0.02
1,001 - 5,000	120	353,879	0.20
5,001 - 10,000	76	613,447	0.34
10,001 - 100,000	156	4,876,713	2.69
100,001 +	65	175,235,796	96.75
Rounding			**0.00**
Total	**498**	**181,122,106**	**100.00**

There were 25 shareholders holding less than a marketable parcel of shares based on a market price of $2.39 at the close of trading on 7 April 2016 and there were 7.6% of shareholders with registered addresses outside Australia.

Substantial Shareholdings
As at 7 April 2016 the following substantial shareholder notices have been lodged in accordance with section 671B of the *Corporations Act 2001*:

Name	Date of Notice	No of Ord Shares	% of Issued Capital
Pepper Group Limited	5-Aug-15	123,915,675	68.42%
Seumas Dawes - Rose Capital Pty Limited	5-Aug-15	125,204,136	69.13%
Goldman Sachs Group	5-Aug-15	12,693,849	7.01%
CVI CVF II Lux Securities Trading SARL	5-Aug-15	10,952,500	6.05%
York Capital Management Global Advisors LLC	31-Jul-15	10,255,752	5.66%
Perpetual Limited	23-Mar-16	18,068,059	9.98%

Corporate Directory

Directors

Mr Seumas Dawes
Chairman

Mr Michael Culhane
Co Group Chief Executive Officer and Director

Mr Patrick Tuttle
Co Group Chief Executive Officer and Director

Des O'Shea
Independent Non Executive Director

Melanie Willis
Independent Non Executive Director

Matthew Burlage
Independent Non Executive Director

General Counsel and Company Secretary

John Williams

Principal registered office in Australia

Level 9, 146 Arthur Street
North Sydney NSW 2060
(02) 8913 3030

Share registry

Computershare Limited
Level 4, 60 Carrington Street
Sydney NSW 2000
(02) 8234 5000

Auditor

Deloitte Touche Tohmatsu Limited
225 George Street
Sydney NSW 2000
(02) 9322 7000

Solicitors

Herbert Smith Freehills
161 Castlereagh Street
Sydney NSW 2000
(02) 9225 5000

Bankers

Commonwealth Bank of Australia Limited
Tower 1 201 Sussex Street
Sydney NSW 2000
(02) 9378 2000

Securities Exchange Listing

Pepper Group Limited shares are listed on the Australian Securities Exchange (ASX: PEP)

Website

www.pepper.com.au

www.pepper.com.au