Pepper Group Limited

Annual Report 2016

Contents

Details of our Annual General Meeting
Pepper Group Limited's
Annual General Meeting will be held at:

Christie Offices
100 Walker Street
North Sydney NSW 2060
Time: 10.00am
Date: 23 May 2017

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

About Pepper Group

Today's world holds new demands. In financial services there is an essential balance required between harnessing innovative technologies and the human side of our business. This is the expertise we continually nurture as we work to develop new ways to finance ambition.

We offer a unique, diversified, global portfolio of financial services. We provide specialist experience in our core disciplines of Lending, Advisory and Asset Servicing across the residential and commercial property sectors – as well as in consumer, auto and equipment finance.

Yet, we're not a bank. We offer a different service level to the banks and we don't really compete against them. We pick market niches where either the banks don't want to play, or they used to play and don't play anymore. And we fill those niches with products that people actually want and need, augmented by a much higher level of service.

With over $52.4 billion in assets under management as at 31 December 2016 – comprising $7.0 billion in lending assets and a servicing portfolio of $45.4 billion, we're a global leader in alternative solutions. Our offices are located across Australasia, Asia and Europe.

Your success is our quest. Talk to us today about what you want to achieve.

Lending

A fresh approach to lending

Servicing

Third party servicing and asset management

Advisory

Property investment and advisory services

Financial highlights

	CY 2015 Actual	CY 2016 Actual	PCP% Change
Total income $'m	304.3	413.2	**36%**
Adjusted NPAT $'m	48.6	61.0	**26%**
AUM $'bn	45.5	52.4	**15%**
Servicing AUM $'bn	39.9	45.4	**14%**
Lending AUM $'bn	5.6	7.0	**25%**
Loan originations $'m	3,255.8	4,928.5	**51%**
FTE headcount	1,485	1,846	**24%**

Adjusted NPAT
$61.0m

Statutory NPAT
$61.6m

AUM
$52.4bn

Total fully franked dividend paid to shareholders for CY2016
8.4cps

Pepper's strong track record of delivering double digit profit growth continued in 2016

Pepper's growth is being achieved organically through record loan originations in Australia and South Korea, along with continued growth in recurring earnings from our pan-European servicing platform.

Our 2016 result also confirms the strong and emerging profitability of Pepper Savings Bank in South Korea, coupled with a continuing and meaningful contribution from our investment in the Prime Credit business in Hong Kong and China.

The strategic acquisitions that we have made over the past 3 to 5 years are also starting to bear fruit as we see our residential and consumer lending businesses in the UK, Ireland and Spain building scale.

Chairman's message

Dear shareholders

Pepper's strong track record of double digit profit growth continued in 2016 with Adjusted NPAT up 26% to $61.0m. This impressive result was achieved organically through record mortgage and consumer lending originations in Australia and South Korea, along with continued growth in recurring earnings from our pan-European servicing platform.

Shareholders received a total of 8.4 cents per share for the 2016 calendar year, after Directors declared a 3 cents per share dividend fully franked for the six months to 30 June 2016, and a 5.4 cents per share for the 6 months to 31 December 2016.

In 2016, our global consumer lending and mortgage servicing approach saw us amass $52.4bn in assets under management. It comprised $7.0bn in lending assets and $45.4bn in funds we service on behalf of other institutions.

The fees earned on these growing assets have allowed us to make a strong investment into our future growth by fostering new products and lending initiatives across the globe.

The strategic acquisitions that we have made over the past 3 to 5 years are also starting to bear fruit as we see our residential and consumer lending businesses in the UK, Ireland Spain and Asia building scale.

Pepper Savings Bank in South Korea is a good example of our growth strategy at work. In 2013, we identified and purchased a small Mutual Savings Bank which we renamed Pepper Savings Bank. By implementing our pricing for risk methodology across its product suite we have transformed this business such that it originated $1.28bn in new loans in 2016 and generated revenues in excess of $76m.

At Pepper, our mission is to help people succeed.

Since we began in 2001, we have sought to identify under-serviced markets, both in Australia and around the world and set up operations that deliver future lending and servicing growth. And we do that by acquiring existing businesses or setting up operations from scratch.

We often lend when the banks won't, and we can do this because we have developed proprietary credit processes and have adopted a risk based pricing methodology simply through getting to know customers' individual circumstances intimately.

It is this lending expertise that allows us to also manage and administer both performing and non-performing loan books on behalf of other banks, financial institutions and fund managers.

Subsequent to year end, the Board of Pepper Group resolved to consolidate the group's leadership structure under Group CEO Mike Culhane. This decision meant that Patrick Tuttle left the group on 31 March 2017. I would like to take this opportunity to pay tribute to Patrick's significant contribution to Pepper's growth over the past 16 years. Patrick joined Pepper as CFO and Treasurer in 2001, before being appointed as Co-Group CEO in 2011, alongside Mike Culhane.

Together they oversaw 7 years of substantial and sustained growth. Patrick has been instrumental in both the Australian and international growth and ASX listing of Pepper.

On behalf of the Board I would like to thank Patrick for his very significant contribution and wish him all the very best in his future endeavours.

Pepper has a strong and highly experienced global leadership team and the Board and I are confident that they will continue to successfully deliver on our strategy under Mike's leadership.

In 2017, we can already see new opportunities on the horizon for Pepper Group. Our future growth will be underpinned by the strong gains experienced to date in Australia and Asia. We will seek to support ongoing lending growth in all of our markets including in Ireland and the UK where we have only recently started lending. We also expect to build on the installed revenue base in our third party servicing operations across Europe.

Finally I would like to thank the global executives and all employees at Pepper for their dedication and energy. Without their efforts and skills we would not be in the position we are today to expand our existing products and services, and look confidently for new opportunities.

Seumas Dawes Chairman

Group CEO's overview

In 2016 Pepper Group's strong earnings uplift continued to be delivered through a combination of organic growth across our consumer and residential mortgage lending businesses, along with new and installed earnings from our pan-European loan servicing platform.

Our CY2016 result also confirms the strong and emerging profitability of Pepper Savings Bank in South Korea, coupled with a continuing and meaningful contribution from our investment in the Prime Credit business in Hong Kong and China.

The strategic acquisitions that have been made over the past 3 to 5 years are also starting to bear fruit as we see our residential and consumer lending businesses in the UK, Ireland and Spain building scale.

In 2016, Pepper delivered an Adjusted Net Profit After Tax (NPAT) of $61.0 million. This represents a 26% increase on our CY2015 result of $48.6 million.

Total Group Assets Under Management at 31 December 2016 were A$52.4 billion. This comprises A$45.4 billion of Servicing AUM, up 14% on last year, and A$7.0 billion of Lending AUM, up 25% on last year.

Total loan originations for calendar year 2016 were A$4.93 billion, up 51% on the prior year – largely reflecting the continuing significant lending growth experienced in our Australian mortgage lending and auto finance businesses, our Korean savings bank, and to a lesser extent our European mortgage lending and consumer finance businesses.

This year we have changed how we report our international segment to allow us to provide more detail to shareholders. We have split the international segment into Asia and Europe. Asia incorporates our South Korean, Hong Kong and China business units and Europe includes Ireland, the UK and Spain. In creating the new segments we believe that investors will be able to better understand the drivers of group earnings.

The profitability of our businesses in Australia and Asia is largely "Lending-led" due to the dominant focus on residential mortgage and consumer lending in those regions. In contrast, our European earnings continue to be "Servicing-led" due to the significant scale of our third-party loan servicing portfolio across Ireland, the UK and Spain.

This trend will most likely persist over the short-to-medium term, albeit the relative proportion of our Lending income in Europe will progressively increase as we build scale, particularly in the UK residential mortgage and Spanish consumer lending markets in the years ahead from what is a relatively low base today.

"This year's result demonstrates the strength and diversity of Pepper's consolidated earnings, across both business lines and geographies."

Group CEO's overview

Outlook

2016 was a strong year for Pepper and in 2017 we are looking to continue to build sustainable and high quality earnings. The global executive team have spent a lot of time discussing our strategy and how best to execute that with an eye to current market conditions.

With this backdrop, particularly with respect to lending, we are looking to deploy a strategy of measured growth to ensure that we are retaining the best possible borrowers which in turn leads to high quality lending portfolios. Pepper's role as managers of your capital is to make sure we build a sustainable and high quality balance sheet which in turn generates strong and consistent returns over an extended period.

To that end we will continue to grow lending in our core markets and build upon the existing installed base of third party servicing revenues while always ensuring that we are close to the expense lines particularly those associated with costs.

In 2017 we are forecasting Adjusted NPAT to be at least $67.5 million not including performance fees. We are very conservative in our budgeting of performance fees which we only incorporate into projections if they are highly likely to be realised.

It is also important to point out that while our UK lending business is growing very quickly, fixed costs will only start being covered towards the end of 2017. At that point, as has been seen in South Korea we expect profitability to increase into 2018 and beyond. We are also continuing to invest into our Irish mortgage and Australian auto business lines which we expect to generate increasing returns going forward.

2017 is a year where we are seeking to consolidate recent strong gains in Australia and South Korea while carefully growing originations in Ireland and the UK while taking account of the macro backdrop. In Spain, we are seeing predictable growth and Hong Kong is performing well with the new license in China giving the opportunity for significant future upside.

2016 was a very strong year for Pepper, both in terms of new lending and profitability. It is a result that every single person in the organisation was a part of and of that, we can be very proud. As we look forward to 2017 and beyond we believe the sustainability and quality of our earnings will continue to generate predictable returns for our shareholders.

What we do

Lending

Pepper's lending businesses targets customer segments in Australia and New Zealand, Asia and Europe where there is relatively less competition from the traditional banking sector and other prime lenders, thereby 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 holds strong underwriting expertise, proactive loan collections and portfolio servicing supported by quality assurance programs and a robust and strategic approach to capital management.

Servicing

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; and
- **Cross border presence:** Given its scaled servicing presence in a number of countries, Pepper is able to share its successful servicing techniques and technologies, and leverage its strategic partner relationships.

Advisory

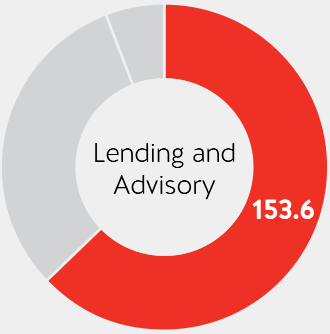
Pepper Property helps corporate clients develop holistic property and capital strategies that support their business goals. As an independent global property advisor, it offers bespoke, best-in-class real estate solutions for corporations, investors and developers.

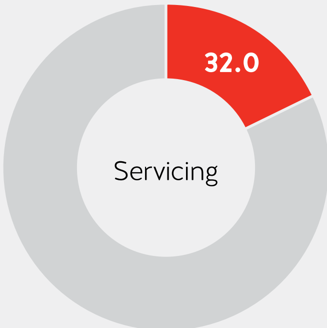
Pepper applies its expertise in the following key areas:

- **Workplace and project advisory:** advise on the process for workplace development, from technical due diligence through to project delivery
- **Sales and acquisitions:** assist with acquisitions, divestments, transaction advice and representation
- **Real estate capital:** advise on debt and equity transactions across all real estate sectors
- **Occupier advisory:** ensure a client's property strategy supports their business plan now and in the future.

Australia & NZ

Revenue $'m





CY 2016	$'m
AUM	**7,065.5**
Servicing AUM	1,641.0
Lending AUM	5,424.5
Loan originations	**3,205.5**

Operational Highlights

- Record origination growth in mortgages and asset finance
  - Total mortgage originations of $2.5bn up 36% on CY15.
  - Asset finance originations of $673m up 69% YOY.
- Distribution penetration is driving above-system origination growth in Australia. Brokers using Pepper have grown from 600 in 2012, to over 2630 in 2016.
- Pepper's Australian residential loan portfolio remains well balanced regardless of market trends – over 72% of the portfolio is owner occupied, with an average loan to value ratio of 71%. 90% of the portfolio is in residential housing.
- Successful completion of 2 non-conforming RMBS transactions totalling $1.5bn in addition to $1.0 billion in whole loan sales – these transactions allow Pepper to continue to write new mortgages.

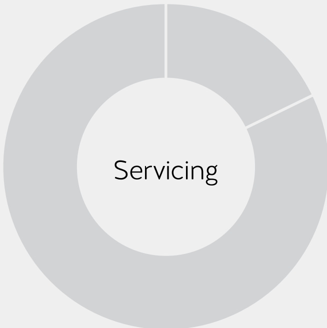
Strategic Initiatives

- Lending growth is benefiting from our continued investment in brand positioning to boost awareness (eg launch of Pepper Money).
- Soft launch of Personal Loans – a wholly online product.
- Continued focus on diversified distribution via brokers, direct channel and white label partners including B2C digital marketplace platforms.

	Lending	Servicing	Advisory
Australia	– Residential Mortgages – Auto and equipment loans – Personal Loans	– Own-originated – Third party	– Property Advisory
New Zealand		– Third party	

Asia

Revenue $'m



CY 2016	$'m
AUM	**1,176.5**
Lending AUM	1,176.5
Loan originations	**1,283.1**

Operational Highlights

- The Asian segment has been disclosed for the first time this year, recognising the material earnings contribution to Pepper's 2016 profit. It comprises Pepper Savings Bank in South Korea and our 12% minority investment in the Prime Credit business in Hong Kong and China.
- Experienced record loan origination volumes in South Korea of $1.28bn up 53% on prior year which was a strong contributor to Pepper's overall CY16 profit outcome.
- At year end South Korea had approximately 100,000 customers across lending and deposit products.
- The expansion in product range that incorporates Pepper's pricing for risk strategy is winning awards in South Korea.
- Pepper's Prime Credit business in Hong Kong came in ahead of budget despite challenging economic conditions.

Strategic Initiatives

- Continued focus on South Korean secured auto lending via wholesale car supermarts.
- Mobile digital capability broadened to support direct consumer loan origination in South Korea.
- Hong Kong successfully rolled out its WeWa credit card targeting millennials.
- China business granted online license in Chongqing (only 28 licenses granted).

Lending

South Korea

- Residential Mortgages
- Personal and Auto loans

Hong Kong

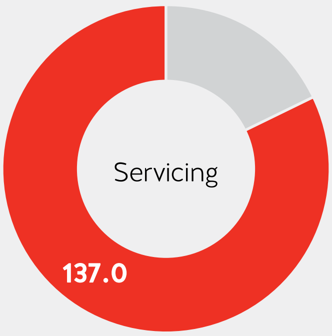
- Personal Loans
- Credit cards

China

- Personal Loans

Europe

Revenue $’m



CY 2016	$’m
AUM	**44,146.8**
Servicing AUM	43,712.7
Lending AUM	434.1
Loan originations	**439.9**

Operational Highlights

Lending

- UK exceeded its lending targets.
- In Ireland we are the first new lender to enter the market since 2008.
- Pepper’s Point of sale lending business in Spain performing well.

Servicing

- In the UK, installed AUM base is growing through originations flowing from challenger bank contracts.
- Ireland continues to see servicing opportunities from banks outsourcing and funds buying portfolios.

Strategic Initiatives

- Exploring Commercial Real Estate options to use across Europe.
- Opportunity to utilise existing infrastructure in Pan European expansion.
- Continuing to evaluate a number of attractive opportunities across Southern Europe.

		Lending	Servicing
	**Ireland**	- Residential Mortgages	- Own-originated - Third party
	**United Kingdom**	- Residential Mortgages	- Own-originated - Third party
	**Spain**	- Personal Loans - Point of sale loans	- Own-originated - Third party

Board of Directors

as at 7 April 2017

Mr Seumas Dawes

Chairman and Non-Executive Director

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

Michael Culhane

Group Chief Executive Officer and Director

Mike founded Pepper in 2000. Based in Hong Kong, Mike is responsible for implementing the company's strategic direction and driving the organic growth initiatives in each of Pepper's consumer lending, mortgage servicing and advisory businesses, across Australia, Asia and Europe. He also takes responsibility for Pepper's merger and acquisition activity within Pepper's CRE advisory business.

Before being appointed CEO, Mike chaired the board of the then privately owned Pepper as well as founding and running Oakwood Global Finance LLP, a specialty finance business which Pepper ultimately purchased in 2013.

Mike has extensive debt and equity capital markets experience, with a particular focus on structured finance, securitisation, portfolio management and venture capital.

Prior to founding Pepper, Mike served as the founder and Executive Chairman of Future Mortgages (a United Kingdom-based non-conforming residential mortgage lender) and the Chief Executive Officer of the European subsidiary of FBR, a United States based, NYSE-traded, investment bank. While at FBR, Mike worked for 10 years in equity capital markets in both Washington DC and in London.

Mike holds a Bachelor of Economics in International Relations from the London School of Economics.

Other listed directorships in the last three years:

None

Mr Des O'Shea

Non-Executive Director

Mr O'Shea was appointed to the Board of Pepper Group Limited in March 2014 and was re-elected as a director at the company's annual general meeting on 26 May 2016.

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

Board of Directors
as at 7 April 2017

Ms Melanie Willis
Non-Executive Director

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.

In May 2016 Ms Willis was appointed as a Non-Executive Director of Southern Cross Media Group Limited. During the last 10 years, Ms Willis has also held Non-Executive Directorship roles at ASX listed financial services and accounting company Crowe Horwath, retirement village and aged care operator Aevum Limited (including Audit Committee Chair), Hydro Tasmania (including Audit & Risk Committee Member) and novated leasing provider, Rhodium Asset Solution, Ardent Leisure Group and Mantra Group (including Audit Committee Chair).

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), a $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 currently a non-executive director of Mantra Group (where she chairs the Audit & Risk Committee), Ardent Leisure and Southern Cross Media Group Limited (where she chairs the Audit and Risk Committee).

Other listed directorships in the last three years:

Crowe Horwath Limited
(resigned in October 2014),

Mantra Group
(appointed in June 2014),

Ardent Leisure Group
(appointed in July 2015)

Southern Cross Media Group Limited
(appointed in May 2016).

Mr Matthew Burlage
Non-Executive Director

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.)

Pepper in the community

Our People

At Pepper, we are committed to providing a diverse and inclusive culture for all employees in support of our Mission to "help people succeed".

We understand that our employees are our most important asset because our success depends on them. In fact in 2016, to ensure that success continues, Pepper's headcount increased 24% globally to 1,846 full time employees. Women represent 43% of our workforce – a number we are committed to improving.

In 2017, we have set the following targets that we will work towards:

1. 50/50 gender representation for recruitment assignments, graduate or intern placements and High Potential Programs.
2. Focus on increasing female representation at senior levels, targeting departments with little female representation at manager level.
3. Commitment to ensuring pay equity exists for like roles regardless of gender.

We recruit people that really fit the values and culture of Pepper – Can Do, Balanced and Real. 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 in Australia 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.

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.

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 2016

DIRECTORS' REPORT

PEPPER GROUP LIMITED

The Directors of Pepper Group Limited (the Company) submit the annual report of the Company together with its controlled entities (collectively referred to as the Group or Pepper) for the year ended 31 December 2016.

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 54,740,439 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 as was re-elected as a Director at the Company's annual general meeting on 26 May 2016.

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.

In May 2016 Ms Willis was appointed as a Non-Executive Director of Southern Cross Media Group Limited. During the last 10 years, Ms Willis has also held Non-Executive Directorship roles at ASX-listed financial services and accounting Company Crowe Horwath, retirement village and aged care operator Aevum Limited (including Audit Committee Chair), Hydro Tasmania (including Audit & Risk Committee Member) and novated leasing provider, Rhodium Asset Solution, Ardent Leisure Group and Mantra Group (including Audit Committee Chair).

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), an $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 currently a Non-Executive Director of Mantra Group (where she chairs the Audit & Risk Committee), Ardent Leisure and Southern Cross Media Group Limited (where she chairs the Audit and Risk Committee).

Other listed directorships in the last three years:

Crowe Horwath Limited (resigned in October 2014), Mantra Group (appointed in June 2014), Ardent Leisure Group (appointed in July 2015) and Southern Cross Media Group Limited (appointed in May 2016).

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 Group's 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 an 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:

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

Mr Culhane was reappointed to the Board of Pepper Group Limited in January 2011.

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.

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. Since December 2016, Mr Culhane has been based in Hong Kong.

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, four years in Washington DC in the US and six years in London in the United Kingdom.

Mr Culhane has a BsC (Econ) degree from the London School of Economics in Political Science.

Other listed directorships in the last three years:

None

Interests in shares and options:

Mr Culhane has 145,115 performance rights, 314,280 loan shares and interests in 8,263,500 ordinary shares.

DIRECTORS' REPORT (CONT.)

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

Experience:

Mr Tuttle was appointed to the Board of Pepper Group Limited in November 2001.

Mr 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 & Structured Finance, Corporate Finance, Banking & Property Group, Macquarie Capital and the Direct Investments Group. Mr Tuttle initially joined Price Waterhouse in 1986 as an undergraduate and worked for the firm's financial services practices in both Sydney and London until 1998, attaining the position of Senior Manager.

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

Other listed directorships in the last three years:

None

Interests in shares and options:

Mr Tuttle has 145,115 performance rights, 314,280 loan shares and interests in 7,419,693 ordinary shares.

OTHER DIRECTORS DURING THE PERIOD

None

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 2016 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]	11	11	*	*	3	3
Des O'Shea[3]	11	11	5	5	3	3
Melanie Willis	11	11	5	5	*	*
Matthew Burlage	11	10	5	5	3	3
Patrick Tuttle	11	11	*	*	*	*
Michael Culhane	11	11	*	*	*	*

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 & 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 2016 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 underserved by traditional banks and other lenders.

Pepper has developed a strong specialist lending and loan servicing group through a combination of organic growth and targeted acquisitions across Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, Hong Kong and China.

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

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

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

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

Pepper's core capabilities include:

- Product manufacturing: Deep manufacturing expertise in residential mortgage and auto 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 mortgage lending in the United Kingdom, Ireland and South Korea and consumer finance in Spain, South Korea, Hong Kong and China. Pepper is able to apply its detailed knowledge of borrowers to develop new products that address unmet demand;
- Distribution: Pepper distributes loans in Australia through its relationships with accredited brokers and white-label partners, in addition to its direct-to-customer consumer channel. Strong long-term relationships with global loan portfolio acquirers help Pepper win and maintain servicing contracts across multiple jurisdictions. Overseas, Pepper distributes via intermediaries and direct to the public depending on the product type and location;
- Treasury and funding expertise: Pepper has strong long-term relationships with global funding partners and is a trusted issuer in the term securitisation markets;
- Risk management: Pepper operates with a holistic risk management and governance framework; and
- Collections management: Pepper's specialised collections processes are based on deep experience, expertise, analytical capabilities and a solution-based approach to customer management.

FUNDING

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

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

- Corporate debt facilities: Utilised for working capital and business operations;
- Warehouse facilities: Third-party funders provide limited-recourse financing to special purpose vehicles established by Pepper to originate or acquire loans;
- Term securitisations: Loans that are initially funded via a warehouse facility can be pooled together and refinanced by being sold to a new funding vehicle that issues limited-recourse asset-backed securities to public market investors;
- Whole loan sales: Pepper is able to create additional liquidity by selling specific pools of loans to release and recycle capital; and
- South Korea deposits: Pepper's lending business in South Korea holds a banking licence and the lending book is primarily funded by customer deposits.

DIRECTORS' REPORT (CONT.)

PRINCIPAL RISKS

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

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

BUSINESS STRATEGIES

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

1. Organic lending growth

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

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

Europe Division[1,2]: Pepper expects growth to be driven by new lending in Europe, driven by Prime and near-Prime Mortgages in the United Kingdom and Ireland, together with continued growth in personal loans and point of sale finance in Spain.

Asia Division[1,2]: Pepper expects growth to be driven by new lending in South Korea, in personal loans, mortgages, auto and equipment loans and continued growth in Hong Kong and China through the Group's investment in Prime Credit.

2. Organic servicing growth

- Servicing assets under management growth is expected to be driven by recently awarded third-party contracts in the UK and continued opportunities in Ireland. As at 31 December 2016, the Group had $45.4bn of third party servicing assets under management (2015: $39.9bn); and
- Pepper continues to identify a 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).

Notes

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

2 – The 'Asia Division' and 'Europe Division' segments have been reported separately in 2016 in comparison to 2015 when they were jointly included within the 'International Division'. Management believes this level of segmentation is more reflective of how the Group's performance is managed.

FINANCIAL REVIEW

Income statement

Statutory income statement	**Year ended 31 December 2016 $'000**	Year ended 31 December 2015 $'000
Total revenue	**684,596**	527,729
Share of results from associates	**9,030**	3,143
Total expenses	**(614,318)**	(520,675)
Profit before tax	**79,308**	10,197
Earnings per share – basic (cents per share)	**36**	3

The Group recorded a statutory profit before tax for the year of $79m, an increase of 678% year on year (2015: $10m).

Total statutory revenue increased $157m (30%) to $685m, driven by an increase in interest revenue in the Australian Mortgage and Asset Finance businesses and internationally in the Spanish and South Korean lending businesses, reflecting the organic growth of the underlying businesses.

Total statutory expenses increased $94m (18%) to $614m, driven by:

- an increase in borrowing costs, commensurate with growth in the Group's lending businesses; and
- an increase in net loan loss expenses in line with the growth of secured portfolios in Australia and South Korea and growth in higher margin businesses in South Korea and Spain.

The share of results from associates increased $6m reflecting 12 months' profit from the Group's investment in Prime Credit in Hong Kong and China (acquired in May 2015) compared with eight months' results in 2015 and the reversal of previously expensed amortisation of finite life intangible assets subsequently classified to goodwill by Prime Credit Holdings Limited in 2016.

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

Balance sheet

Statutory balance sheet extract Assets	**As at 31 December 2016 $'000**	As at 31 December 2015 $'000
Loans and advances	**7,072,765**	5,652,260
Investment in associates	**99,279**	94,075
Total assets	**8,312,434**	6,546,375

The Group's loans and advances grew by $1.4bn (25%), comprising $2.6bn (46%) of portfolio growth, offset by $1.2bn of whole loan sales. The portfolio growth demonstrates Pepper's global expansion, underpinning its core profitability.

The $2.6bn of portfolio growth was driven by prime and non-conforming mortgages and asset finance in the ANZ Division, partially offset by $1bn of whole loan sales, predominantly consisting of residential mortgages.

The Asia Division also demonstrated strong growth throughout the year driven by increases in personal loans and residential mortgages in South Korea.

The loan portfolio in the Europe Division continued to grow in line with forecast driven by increases in personal loans in Spain and residential mortgages in the UK and Ireland. Assets under management in the loan servicing business in the UK and Ireland also increased substantially during the year.

Statutory balance sheet extract Liabilities	**As at 31 December 2016 $'000**	As at 31 December 2015 $'000
Deposits	**1,383,101**	760,294
Borrowings	**6,252,843**	5,201,525
Total liabilities	**7,858,663**	6,137,760

The Group's asset growth was largely supported by increases in securitised funding facilities in Australia, driven by $1.5bn of residential mortgage backed securitisations during the year, increased warehouse funding facilities and customer deposits in South Korea.

DIRECTORS' REPORT (CONT.)

Equity

Total equity attributable to the owners of the Company	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Foreign currency translation reserve	**11,873**	18,839
Cashflow hedge reserve	**(3,441)**	(1,629)
Issued capital	**298,080**	296,065
Retained earnings	**172,039**	118,431
Other equity	**(24,344)**	(22,332)
Total equity	**454,207**	409,374

Total equity increased $45m compared with the prior period, primarily representing $62m of profit after tax attributable to owners of the Company. This increase was offset by a $7m decrease in the foreign currency translation reserve from translating the Group's foreign operations, driven by the weakening of the Pound Sterling post Brexit and the $10.8m reduction in retained earnings due to a dividend paid to shareholders during the year.

Matters subsequent to the end of the reporting period

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

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

Since July 2016 both parties have been working towards completion of the transaction including seeking to satisfy the conditions precedent. Satisfaction of these conditions precedent has taken longer than anticipated, such that, since the end of the financial year, the contractual deadline for doing so has now passed.

As a result, the agreements between Pepper and Banco Popular in relation to the strategic partnership and related arrangements are no longer legally binding upon them, however, the parties continue to discuss the possible completion of the deal on substantially the same terms as were agreed in July 2016.

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 2016 of 5.4 cents per ordinary share which will be paid on 12 April 2017 to shareholders on the share register on 7 March 2017.

During the year the Company paid a fully franked dividend of $10.8m to shareholders, $5.4m of which was paid in April with the remainder being paid in October (2015: $1.9m).

Non-audit services

The Company may decide to employ the auditor on assignments additional to its 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 37.

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 Corporations Instrument 2016/191.

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
24 February 2017

Patrick Tuttle
Co-Group Chief Executive Officer and Director
24 February 2017

REMUNERATION REPORT

LETTER FROM THE CHAIRMAN

Dear Shareholders,

On behalf of the Board, I am pleased to present you with the 2016 Remuneration Report for Pepper Group Limited.

The Board has adopted and implemented a remuneration structure that aligns with the Group's strategy and is consistent with market. 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 three 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 FY2017.

I am pleased to report that for FY2016, Pepper achieved a NPAT target of $61 million and Return On Average Equity (ROAE) target of 18.32%. Based off this strong result, the CEOs each received 78% of their 'stretch' STI award and the CFO received 76.25% of his 'stretch' STI award. As noted above, a portion of this award will be deferred for three years.

The FY2016 LTI grant was made in the form of performance rights and loan shares. 50% of the FY2016 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. Participants must be employed by the Group on the relevant vesting date. No LTI Tranches vested in FY2016 and as a result there has been no vesting of LTI .

On behalf of the Board, I invite you to read the 2016 Remuneration Report and welcome any feedback that you may have.

Seumas Dawes
Chairman and Non-Executive Director
24 February 2017

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 2016. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the *Corporations Act 2001* (Cth).

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 FY2016.

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 (CFO)

Note

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

All Non-Executive Directors and senior executives have held their positions for the whole of FY2016.

Remuneration snapshot

The following table provides a summary of the actual remuneration received by the CEOs and CFO in respect of FY2016. This is a voluntary disclosure and differs from the statutory remuneration table on page 31, 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 FY2016.

			LTI		
	Total fixed remuneration[1]	**Bonuses[2]**	**Loan Shares vested during FY2016**	**Performance rights vested during FY2016**	**Total[3]**
Michael Culhane	$836,549	$585,000	Nil	Nil	$1,421,549
Patrick Tuttle	$825,011	$585,000	Nil	Nil	$1,410,011
Cameron Small	$438,000	$244,000	Nil	Nil	$682,000
Total	**$2,099,560**	**$1,414,000**	**Nil**	**Nil**	**$3,513,560**

Notes

1 – Total fixed remuneration includes base salary and compulsory employer superannuation contributions. The salary for both CEOs remains equal. The different amount indicated in the table above reflects a change in Michael Culhane's pay cycle on his relocation to Hong Kong.

2 – This reflects STI amounts paid to the CEOs and CFO in respect of their FY2016 award but does not include any amount of the FY2016 award that has been deferred.

3 – This excludes any non-monetary benefits received by the executives. These are set out in the statutory remuneration table on page 31.

REMUNERATION REPORT (CONT.)

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 advisers

The Company obtained independent benchmarking data from the Finance Industry Remuneration Group in FY2016, however no remuneration recommendations were received.

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-term and long-term incentives that are challenging and linked to the creation of sustainable shareholder returns
- Ensure any termination benefits are justified and appropriate

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.

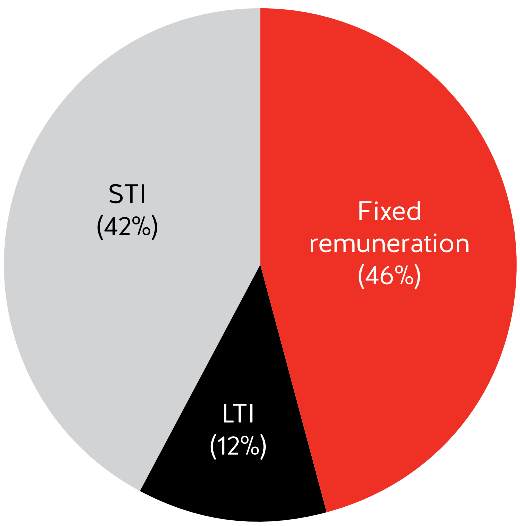
Remuneration mix and components

The 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.

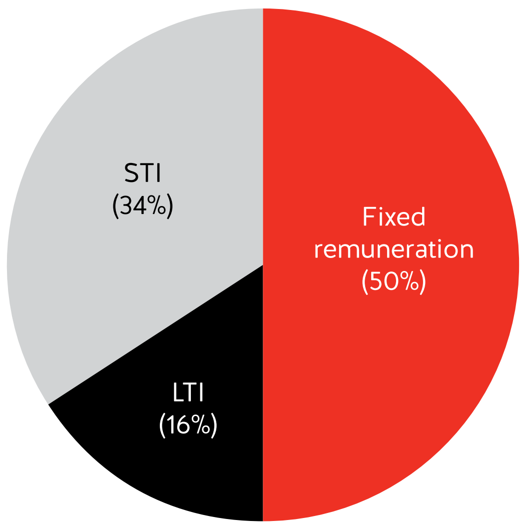
REMUNERATION FRAMEWORK

FIXED	AT RISK	
Total fixed remuneration	**Short-term incentive**	**Long-term incentive**
Reviewed annually Formal benchmarking against peer companies will occur and it is intended that Pepper will position itself at the median Influenced by individual performance	Determined based on targets set by the Board, including targets relating to strategic objectives of the Group and personal objectives STI opportunity for on target performance is set at 100% of base salary for the CEOs and 75% of base salary for the CFO Delivered in cash. Payment of 20% of STI awards is deferred for three years	The FY2015 LTI grant was made in the form of performance rights and loan shares 50% of the FY2016 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 For the CEOs, the LTI opportunity is set at 27.6% of base salary For the CFO, the LTI opportunity is set at 34.5% of base salary

The diagrams below illustrate the remuneration mix for the CEOs and CFO for FY2016.



Remuneration mix for CEOs for 2016



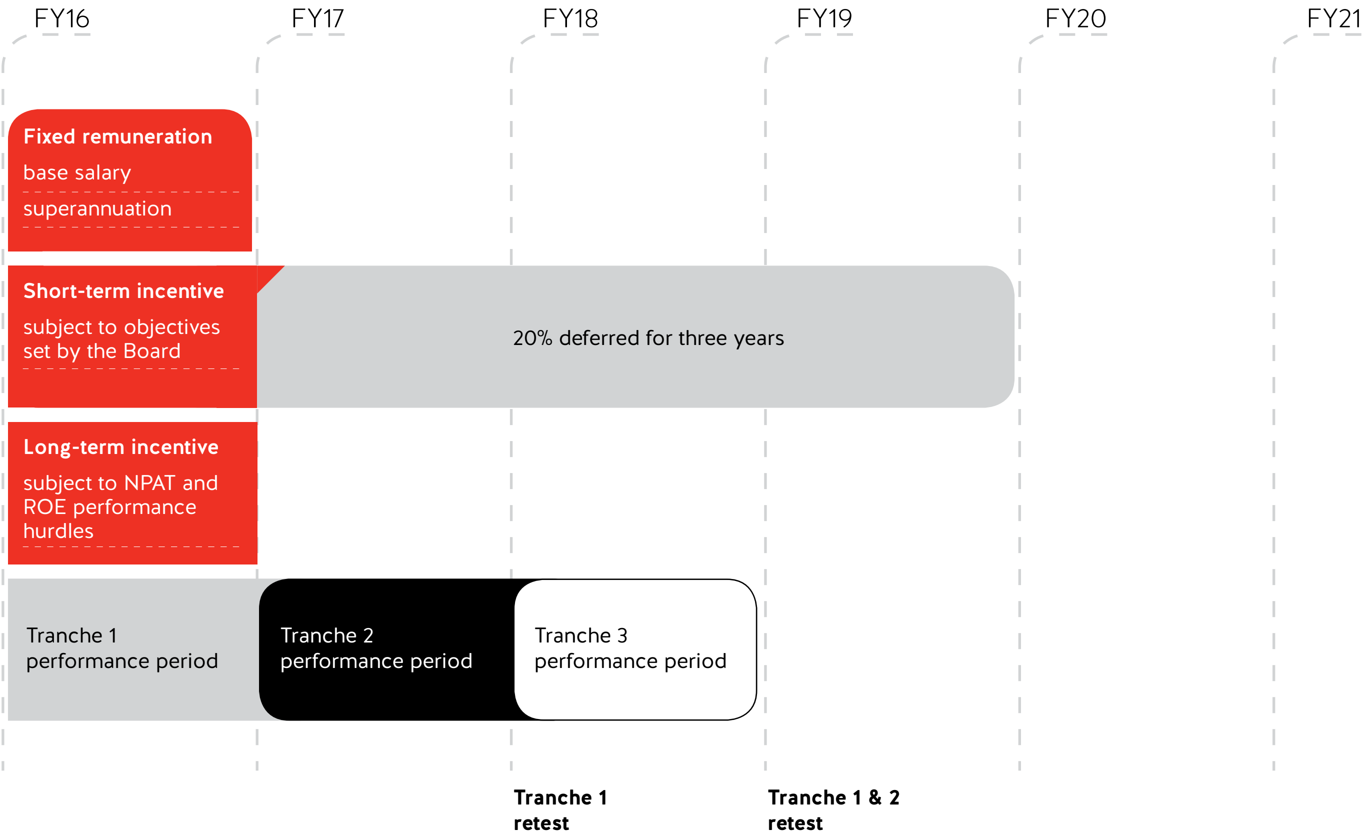
Remuneration mix for CFO for 2016

REMUNERATION REPORT (CONT.)

B. REMUNERATION ESSENTIALS (CONT.)

Remuneration mix and components (cont.)

The diagram below shows timing for delivery of executive remuneration for FY2016.



Company performance for FY2016

The Company measures its financial performance on a number of key measures as outlined in the table below. 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 second remuneration report as a listed entity.

	Share Performance ($)		Earnings Performance				Dividend
Year	**Opening Share price (A$)**	**Closing Share price (A$)**	**EPS ($)**	**NPAT ($M)**	**Adjusted NPAT ($M)**	**3 yr Ave ROE (%)**	**Cents per share**
2015	2.60[1]	3.50	0.03	$3.6	$48.6	21.32	–
2016	3.50	2.45	0.36	$61.6	$61.0	18.27	6.0

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.

Short-term incentive

Set out below is an explanation of the terms and conditions applying to the STI arrangements for the senior executives in FY2016.

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 2016 to 31 December 2016
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 threshold, 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 three-year average ROAE and NPAT) and 60% is based on achievement of Divisional and Personal KPIs. The financial targets were set in accordance with the Group's financial strategy for FY2016. Divisional KPIs include cost, volume and reporting targets aligned to the Group's financial strategy whilst Personal KPIs 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 FY2016. 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 audited 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.
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 FY2016. The remaining 20% will be deferred for a period of three 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 FY2016

The table below details the STI awards received by senior executives, 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
FY 2016					
Michael Culhane	$750,000	$937,500	$731,250	78%	22%
Patrick Tuttle	$750,000	$937,500	$731,250	78%	22%
Cameron Small	$300,000	$400,000	$305,000	76%	24%

Note

1 – Payment of 20% of the FY2016 amount will be deferred until February 2020. Payment of the non-deferred amount will be made after the release of the FY2016 results.

REMUNERATION REPORT (CONT.)

C. EXECUTIVE REMUNERATION IN DETAIL (CONT.)

Details of components of executive remuneration (cont.)

Long-term incentive

Set out below is an explanation of the terms and conditions applying to the LTI awards for senior executives in FY2016.

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.

Instruments — For FY2016, awards were delivered using a combination of Performance Rights and a loan to acquire Loan Shares. Refer to the table on page 31 for the split between the two instruments.

Performance Rights — Performance Rights are rights to receive shares in the Company. Upon vesting, each performance right entitles the senior executive to one ordinary 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 ordinary 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 — FY2016 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 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 the 2016 LTI Award 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 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 interests of the senior executives with the Group's long-term strategy and to ensure retention of key senior management within the business.

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 met. 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. 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 audited 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, 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.

Outcomes of the FY2015 LTI and FY2016 LTI[1]

The table below details the outcomes of the first Tranche of the FY2015 and FY2016 LTI awards which have been tested and which will vest in April 2017, as well as the percentage of the maximum that was awarded.

Senior executives		Maximum LTI opportunity (number)	Actual LTI vested (number)	% of maximum LTI vested
Michael Culhane	**2016 Tranche 1**	**51,044**	**35,731**	**70**
	2015 Tranche 1	102,087	71,461	70
Patrick Tuttle	**2016 Tranche 1**	**51,044**	**35,731**	**70**
	2015 Tranche 1	102,087	71,461	70
Cameron Small	**2016 Tranche 1**	**34,029**	**23,820**	**70**
	2015 Tranche 1	68,058	47,641	70

Note

1 – The unvested portion of the FY2015 and FY2016 LTI awards will be retested in 2018 in accordance with the LTI terms and conditions.

REMUNERATION REPORT (CONT.)

C. EXECUTIVE REMUNERATION IN DETAIL (CONT.)

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 FY2016	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 six 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 paid by Pepper are $75,000 (plus superannuation) to the Chairman and other Non-Executive Directors, inclusive of Committee fees. Non-Executive Directors do not receive any performance related/at risk remuneration to ensure that their impartiality is maintained.

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.

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			
		Cash salary	**STI[4,5]**	**Other[1]**	**Superannuation benefits**	**Shares[5]**	**Options[2,3]**	**Rights[3]**	**Total**
Michael Culhane	**2016**	**$817,831**	**$715,704**	**$153,233**	**$18,718**	**$78,796**	**$109,429**	**$129,992**	**$2,023,703**
	2015	$803,670	$763,204	$173,738	$19,034	$78,796	$25,084	$29,779	$1,893,305
Patrick Tuttle	**2016**	**$805,538**	**$715,704**	**$19,137**	**$19,472**	**$78,796**	**$109,429**	**$129,992**	**$1,878,068**
	2015	$803,670	$763,204	$19,482	$19,034	$78,796	$25,084	$29,779	$1,739,049
Cameron Small	**2016**	**$418,528**	**$290,060**	**$27,025**	**$19,472**	**$23,940**	**$72,953**	**$86,662**	**$938,639**
	2015	$407,383	$310,060	$9,933	$19,034	$23,940	$16,722	$19,852	$806,924
Total	**2016**	**$2,041,897**	**$1,721,468**	**$199,395**	**$57,662**	**$181,532**	**$291,810**	**$346,646**	**$4,840,410**
	2015	$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, rent, telephone and internet fees and other similar items.

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

3 – 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 5 August 2015. The grant date of the options and rights granted in 2016 was 5 April 2016. There has been no forfeiture of any options or rights granted under this plan and no options or rights have been exercised.

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 FY2016 relating to deferred STI with a vesting date in 2017 is $80,671. The amount expensed in FY2016 relating to deferred STI with a vesting date in 2018 is $87,797. The amount expensed in FY2016 relating to deferred STI with a vesting date in 2019 is $139,000.

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 2016 relating to the cash component is included under STI (refer Note 4) and the amount expensed in 2016 relating to the equity settled component is included under Shares in the share-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 FY2016, by number and value, of Performance Rights and Loan Shares held by each member of KMP.

Australian Accounting Standards require the Loan Shares to 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[2]**	**Opening balance**	**Granted (number)**	**Granted (value)[1]**	**Vested (number)**	**Vested (value)**	**Lapsed (number)**	**Lapsed (value)**	**Closing balance**
Michael Culhane[3]	Performance Rights	96,743	48,372	$96,459	–	$ –	–	$ –	145,115
	Loan Shares	209,520	104,760	$81,094	–	$ –	–	$ –	314,280
Patrick Tuttle[4]	Performance Rights	96,743	48,372	$96,459	–	$ –	–	$ –	145,115
	Loan Shares	209,520	104,760	$81,094	–	$ –	–	$ –	314,280
Cameron Small[5]	Performance Rights	64,496	32,248	$64,306	–	$ –	–	$ –	96,744
	Loan Shares	139,680	69,840	$54,063	–	$ –	–	$ –	209,520

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 2016 Performance Rights were granted on 5 April 2016. There is no exercise price. The loans provided by the Company to senior executives and used to acquire 2016 Loan Shares under the LTI plan during the year were granted on 5 April 2016.

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 Limited 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.

REMUNERATION REPORT (CONT.)

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 and their related parties:

Name	Opening balance	Advanced during FY2016[1]	Repayments during FY2016[2,3]	Closing balance	Highest amount of indebtedness during the reporting period
Michael Culhane	$1,510,707	$253,519	$ –	$1,764,226	$1,764,226
Patrick Tuttle	$1,510,707	$253,519	$ –	$1,764,226	$1,764,226
Cameron Small	$1,163,582	$169,013	$ –	$1,332,595	$1,332,595
Total:	**$4,184,996**	**$676,051**	**$ –**	**$4,861,047**	**$4,861,047**

Notes

1 – 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.

2 – No repayments have been made during the period.

3 – 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 $44,820 for Michael Culhane and $44,820 for Patrick Tuttle, based on an arms-length rate of 4.64%.

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 $37,139, based on an arms-length rate of 4.64%.

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 and 5 April 2023. For legal reporting reasons, the amount of interest that would have been charged in respect of the loans on an arms-length basis would have been $34,010 for Michael Culhane and $34,010 for Patrick Tuttle, based on the commercial borrowing rate of Pepper of 4.64%.

LTIP arrangements – Cameron Small

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 and 5 April 2023. For legal reporting reasons, the amount of interest that would have been charged in respect of the loans on an arms-length basis would have been $22,673, based on the commercial borrowing rate of Pepper of 4.64%.

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[2]	Other benefits (non-cash)	Termination benefits	Superannuation benefits[1,2]	Remuneration for services as a Non-Executive Director
Seumas Dawes	**2016**	**$75,000**	**$ -**	**$ -**	**N/A**	**N/A**	**$7,125**	**$82,125**
	2015	$75,000	$ –	$ –	N/A	N/A	$7,125	$82,125
Des O'Shea	**2016**	**$82,078**	**$ -**	**$ -**	**N/A**	**N/A**	**$ -**	**$82,078**
	2015	$82,125	$ –	$ –	N/A	N/A	$ –	$82,125
Melanie Willis	**2016**	**$75,000**	**$ -**	**$ -**	**N/A**	**N/A**	**$7,125**	**$82,125**
	2015	$75,000	$ –	$ –	N/A	N/A	$7,125	$82,125
Matthew Burlage	**2016**	**$82,078**	**$ -**	**$ -**	**N/A**	**N/A**	**$ -**	**$82,078**
	2015	$82,125	$ –	$ –	N/A	N/A	$ –	$82,125
Total	**2016**	**$314,156**	**$ -**	**$ -**	**N/A**	**N/A**	**$14,250**	**$328,406**
	2015	$314,250	$ –	$ –	N/A	N/A	$14,250	$328,500

Notes

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.

2 – 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.

Movements in options held by Non-Executive Directors

As noted above, Non-Executive Directors received a one-off grant of options at the time of IPO, as part of their remuneration package. No options were granted to Non-Executive Directors in FY2016.

The following table sets out the movement during FY2016, by number and value, of options held by each Non-Executive Director.

Name	Opening balance	Granted (number)	Granted (value)	Vested (number)[3]	Vested (value)[1]	Exercised (number)	Exercised (value)	Lapsed (number)[2]	Lapsed (value)	Closing balance
Seumas Dawes	75,000	Nil	Nil	25,000	$8,090	Nil	Nil	Nil	Nil	75,000
Des O'Shea	75,000	Nil	Nil	25,000	$8,090	Nil	Nil	Nil	Nil	75,000
Melanie Willis	75,000	Nil	Nil	25,000	$8,090	Nil	Nil	Nil	Nil	75,000
Matthew Burlage	75,000	Nil	Nil	25,000	$8,090	Nil	Nil	Nil	Nil	75,000

Notes

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

2 – No options were forfeited during the year.

3 – The percentage of the grant that vested in each Non-Executive Director in FY2016 is 33.33%.

REMUNERATION REPORT (CONT.)

E. IMPORTANT STATUTORY REMUNERATION DISCLOSURES (CONT.)

Non-Executive Director Remuneration (cont.)

KMP shareholdings

The following table summarises the movements in the shareholdings of KMP (including their personally related entities) for FY2016.

	Held at 1 January 2016	Received on vesting of LTI	Received on exercise of options	Received as remuneration	Other net change	Held at 31 December 2016
Non-Executive Directors						
Seumas Dawes[1]	52,618,961	N/A	Nil	Nil	2,121,478	54,740,439
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[2]	8,263,500	Nil	N/A	Nil	–	8,263,500
Patrick Tuttle[3]	7,419,693	Nil	N/A	Nil	–	7,419,693
Cameron Small[4]	2,180,500	Nil	N/A	Nil	–	2,180,500

Notes

1 – Seumas Dawes holds 35,838,500 shares in his own name, as well as a deemed relevant interest in 18,901,939 shares held by Rose Capital Pty Limited and in 19,556,838 shares held by Pepper Group Limited.

2 – 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. 67,500 shares are held by CPU Share Plans Pty Limited in its capacity as trustee of the Pepper Group Employee Share Trust. The shares held by CPU Share Plans Pty Limited, include shares in relation to deferred STI granted in 2014 (32,425 shares) which is to be released in 2018.

3 – 7,263,731 shares are held by Eccleston Corporation Pty Limited in its capacity as trustee of The Tamworth Trust, of which Patrick Tuttle is a Director and holds 50% of the shares on issue. 38,462 shares are held by Eccleston Corporation Pty Limited 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. The shares held by CPU Share Plans Pty Limited, include shares in relation to deferred STI granted in 2014 (32,425 shares) which is to be released in 2018.

4 – 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. The shares held by CPU Share Plans Pty Limited, include shares in relation to deferred STI granted in 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 2016 corporate governance statement reflects the corporate governance practices in place throughout the 2016 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:

https://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 43 to 87, 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 2016 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
24 February 2017

Patrick Tuttle
Co-Group Chief Executive Officer and Director
24 February 2017

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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The Board of Directors
Pepper Group Limited
Level 27, 177 Pacific Highway
North Sydney NSW 2060

24 February 2017

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 2016. I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie C.J Gatt
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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 Audit of the Financial Report

Opinion

We have audited the financial report of Pepper Group Limited ("the Company") and its controlled entities ("the Group") which comprises the consolidated balance sheet as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Provisions for impairment of loans to customers As disclosed in Note 10, the Group has a loan loss impairment provision of $45.1m (2015: $24.3m). The Group records both collective and specific provisions in accordance with AASB 139 Financial instruments: recognition and measurement, both of which incorporate significant judgement in the application of assumptions, such as historical loss rates and recoverability on collateral. The Group determines collective provisions on a product-by-product basis to incorporate the characteristics of the different types of customer loans (residential mortgages, auto loans, personal loans, point-of-sale financing and other).	Our audit procedures included but were not limited to: • Evaluating and testing the controls relevant to the approval, recording and monitoring of loans and advances to customers, • Evaluating the monitoring controls over the determination and review of the impairment provisions, which included testing data interfaces between key loan management systems and reports monitoring loans in arrears, • Testing a sample of the source loss data used in the collective impairment model and a sample of the calculations within that model for mathematical accuracy and completeness, • Performing a retrospective review of the historic loan loss information for both the individual and collective impairment provisions. • Considering the completeness of loans specifically provided for and the adequacy of loss assumptions applied to loans not specifically provided, and • Recalculating the impairment provision for a sample of loans assessed on an individual basis taking into consideration expected future cash flows from customers, the availability of insurance and/or the realisation of collateral held. We have also assessed the appropriateness of the related disclosures in Note 10 to the financial statements.
Valuation of goodwill As disclosed in Note 14 goodwill comprises goodwill relating to the acquisition of Pepper Property Group $7.7m (2015:$7.7m) and Pepper United Kingdom business $14.5m (2015:17.1 m). In accordance with AASB 136 Impairment of Assets, the Group is required to test goodwill annually. This assessment requires the exercise of significant judgement about forecasting future revenues and expenses, including discount rates applied to cash flows.	We evaluated and challenged the key assumptions used by management in their impairment analysis: by: • Critically evaluating whether the models prepared by management and the reasonableness of the discount rates, forecast future revenues, weighted average cost of capital and terminal growth rate comply with the requirements of AASB 136 Impairment of Assets, • Evaluating the appropriateness of management's identification of the Group's cash generating units, • Evaluating management's controls over the impairment assessment process for the identification of indicators of impairment, • Recalculating the mathematical accuracy of the impairment model, • Comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical

INDEPENDENT AUDITOR'S REPORT (CONT.)

	performance to test the accuracy of management's projections, • Subjecting the key assumptions to sensitivity analyses, and • Comparing the value in use estimate determined by the Group to the current carrying value of goodwill. We have also assessed the appropriateness of the related disclosures in Note 14 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' report, which we obtained prior to the date of this auditor's report, and the following other information which will be included in the annual report (excluding the financial report and our auditor's report thereon), Financial Highlights, Chairman's Message and Co-Group CEOs' Overview, which are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Financial Highlights, Chairman's Message and Co-Group CEOs' Overview included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate that matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of Directors for the Financial Report

Directors of the Group 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 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 preparing the financial report, Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.

- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT (CONT.)

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report of Pepper Group Limited included in pages 22 to 34 of the Directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of the Pepper Group Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

Directors of the Group 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.

DELOITTE TOUCHE TOHMATSU

Jamie C.J. Gatt
Partner
Chartered Accountants
Sydney, 24 February 2017

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Interest revenue	5	**472,607**	333,033
Fee revenue	5	**179,768**	183,711
Other revenue	5	**32,221**	10,985
Total revenue		**684,596**	527,729
Employee benefits expenses	5	**(194,812)**	(195,966)
Depreciation and amortisation expenses	5	**(9,351)**	(14,055)
Borrowing costs	5	**(250,130)**	(209,796)
Loan loss expenses	5	**(64,113)**	(24,420)
Other expenses from operations	5	**(95,912)**	(76,438)
Total expenses		**(614,318)**	(520,675)
Profit from share of results of associates	13	**9,030**	3,143
Profit before tax		**79,308**	10,197
Income tax expenses	7	**(17,659)**	(6,792)
Profit after tax		**61,649**	3,405
Profit for the year attributable to:			
Owners of the Company		**61,664**	3,457
Non-controlling interests		**(15)**	(52)
		61,649	3,405

Earnings per share		**Cents**	Cents
Basic	4	**36**	3
Diluted	4	**35**	3

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Profit after tax		**61,649**	3,405
Other comprehensive income/(expense) that may be recycled to profit or loss:			
Currency translation reserve:	22		
Currency translation differences within associates		**(557)**	(577)
Currency translation differences relating to other Group entities		**(9,418)**	10,267
Tax		**3,009**	1,602
Cash flow hedge reserve:	22		
Gain/(loss) from changes in fair value		**(2,115)**	(2,426)
Amounts transferred to the income statement		**(496)**	528
Tax		**799**	698
Total other comprehensive income that may be recycled to profit or loss		**(8,778)**	10,092
Other comprehensive income not recycled to profit or loss (net of tax):			
Retirement benefit remeasurements		**(224)**	(57)
Tax		**50**	–
Other comprehensive income for the period		**(8,952)**	10,035
Total comprehensive income for the period		**52,697**	13,440
Total comprehensive income/(expense) attributable to:			
Owners of the Company		**52,712**	13,492
Non-controlling interests		**(15)**	(52)
		52,697	13,440

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

CONSOLIDATED BALANCE SHEET

	Note	**As at 31 December 2016 $'000**	As at 31 December 2015 $'000
ASSETS			
Cash and cash equivalents	26	**782,076**	555,737
Investment securities	8	**80,666**	1,197
Derivative financial assets	29	**35,512**	23,080
Receivables	9	**77,736**	70,687
Other assets	12	**28,063**	13,402
Loans and advances	10	**7,072,765**	5,652,260
Deferred tax assets	7	**15,374**	16,461
Other investments	11	**36,267**	42,432
Investment in associates	13	**99,279**	94,075
Property, plant and equipment		**21,961**	12,602
Intangible assets	14	**40,540**	39,674
Goodwill	14	**22,195**	24,768
Total assets		**8,312,434**	6,546,375
LIABILITIES			
Deposits	15	**1,383,101**	760,294
Derivative liabilities	29	**2,607**	1,954
Trade and other payables	16	**31,678**	25,425
Current tax liabilities		**5,468**	3,267
Borrowings	17	**6,252,843**	5,201,525
Other liabilities	18	**148,153**	114,872
Provisions	20	**34,813**	29,618
Deferred tax liabilities	7	**-**	805
Total liabilities		**7,858,663**	6,137,760
Total net assets		**453,771**	408,615
EQUITY			
Issued capital	21	**298,080**	296,065
Other equity	22	**(24,344)**	(22,332)
Other reserves	22	**8,432**	17,210
Retained earnings		**172,039**	118,431
Total equity attributable to the owners of the Company		**454,207**	409,374
Non-controlling interests		**(436)**	(759)
Total equity		**453,771**	408,615
Net assets per share (dollars)		**2.62**	2.36
Net tangible assets per share (dollars)		**2.26**	1.99

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital $'000	Other equity $'000	Other reserves $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total equity $'000
Balance at 31 December 2014	143,517	(19,297)	7,118	116,876	248,214	(707)	247,507
Profit for the period	–	–	–	3,457	3,457	(52)	3,405
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**
Profit for the period	**–**	**–**	**–**	**61,664**	**61,664**	**(15)**	**61,649**
Currency translation movements	**–**	**–**	**(6,966)**	**–**	**(6,966)**	**–**	**(6,966)**
Cash flow hedge movements	**–**	**–**	**(1,812)**	**–**	**(1,812)**	**–**	**(1,812)**
Retirement benefit remeasurements	**–**	**(174)**	**–**	**–**	**(174)**	**–**	**(174)**
Total comprehensive income for the period	**–**	**(174)**	**(8,778)**	**61,664**	**52,712**	**(15)**	**52,697**
Contributions of equity	**2,015**	**(2,015)**	**–**	**–**	**–**	**–**	**–**
Dividend paid	**–**	**–**	**–**	**(10,847)**	**(10,847)**	**–**	**(10,847)**
Transfer of settled equity share schemes	**–**	**(2,805)**	**–**	**2,805**	**–**	**–**	**–**
Recognition of share-based payments	**–**	**2,982**	**–**	**–**	**2,982**	**–**	**2,982**
Other movements	**–**	**–**	**–**	**(14)**	**(14)**	**338**	**324**
Balance at 31 December 2016	**298,080**	**(24,344)**	**8,432**	**172,039**	**454,207**	**(436)**	**453,771**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Cash flows from operating activities			
Receipts from customers		**252,088**	279,342
Payments to suppliers and employees		**(354,827)**	(304,168)
Interest received		**525,686**	352,635
Interest and other finance costs paid		**(259,329)**	(208,676)
Income taxes paid		**(13,057)**	(15,596)
Net cash inflow from operating activities	26	**150,561**	103,537
Cash flows from investing activities			
Net payments for property, plant and equipment		**(3,355)**	(6,881)
Payments for intangibles		**(14,426)**	(5,820)
Cash flows relating to investments		**4,002**	15,440
Amounts received from related parties		**1,713**	1,632
Payments for arrangement fees		**(10,179)**	(7,754)
(Investment in)/repayment of debt securities		**(80,181)**	73,013
Net increase in loans and advances		**(2,819,803)**	(1,634,197)
Net cash inflow/(outflow) from deconsolidation of subsidiaries		**275**	(1,661)
Payments from/(to) associates		**4,398**	(79,997)
Sale of loan portfolios		**1,331,854**	46,719
Net cash outflow from investing activities		**(1,585,702)**	(1,599,506)
Cash flows from financing activities			
Net proceeds from issuance of capital		**-**	150,867
Redemption of preference shares		**-**	(36,145)
Net increase in borrowings		**1,047,822**	1,065,098
Net increase in deposits		**632,795**	406,885
Dividend paid		**(10,847)**	(1,901)
Net cash inflow from financing activities		**1,669,770**	1,584,804
Effects of exchange rate changes on balance of cash held in foreign currencies		**(8,290)**	4,457
Net increase in cash and cash equivalents		**226,339**	93,292
Cash and cash equivalents at the beginning of the financial period		**555,737**	462,445
Cash and cash equivalents at the end of the financial period	26	**782,076**	555,737

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016. These financial statements were approved and authorised for issue by the Board of Directors on 24 February 2017.

The Company is incorporated and domiciled in Australia and is a Company limited by shares. The Company's shares are listed on the Australian Securities Exchange ('ASX'). The ASX ticker code is PEP.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing financial statements.

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 note 11.

Compliance with IFRS

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 Legislative Instrument 2016/191.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1 – ABOUT THIS REPORT (CONT.)

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 relevant 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 financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Group's 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 financial instruments at initial recognition and re-evaluates this designation at the end of each reporting period in the case of assets classified as held-to-maturity.

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.

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 instrument 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.

NOTE 1 – ABOUT THIS REPORT (CONT.)

Financial instrument accounting policies (cont.)

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 rate 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 2016

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 2016 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*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139.

Unless early adopted the standard is effective for the 31 December 2018 year end. The Group intends to report under AASB 9 for the first time in the interim report at 30 June 2018.

Management has put an AASB 9 cross-functional project team in place to assess the implications of the new standard and to implement the new standard to ensure appropriate and consistent application across the Group's diverse range of financial activities.

As the Group has not concluded the initial impact assessment and as the effect the new standard could have on the financial results of the Group will change as the circumstances of the Group change up to the point of initial adoption, it is not yet practical to reliably estimate the financial impact on the financial statements.

We have, however, outlined the major changes under the standard below and where we believe the Group will be most impacted.

Impairment

AASB 9 brings about a move from an incurred loss model to an expected loss model. This model will be applicable to the majority of the Group's financial assets. Under the old model losses are recognised when incurred. Under the new model, at a minimum, affected assets will record an estimate of losses currently incurred and those expected to be incurred within the following 12 months. Additionally for the majority of financial assets which have experienced a significant increase in credit risk since initial recognition, a lifetime expected loss will be recognised.

The introduction of a lifetime loss model will introduce significant areas of complexity (such as the requirement to use forward-looking information) and judgement (such as the interpretation of "significant increase in credit risk").

Due to the complexities and areas of judgement the Group expects most of the time spent on the project to be in this area. The Group also expects this aspect of the new standard to have the most significant impact on the results of the Group.

Classification and measurement

AASB 9 replaces the classification and measurement model in AASB 139 with a new model that categorises financial assets based on:

- the business model within which the assets are managed; and
- whether the contractual cash flows under the instrument solely represent the payment of principal and interest.

Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive income; or
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest.

An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

The majority of the Group's financial assets are not expected to be impacted by the changes and any impact is expected to be immaterial for the Group.

NOTE 2 – APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT.)

Hedging

AASB 9 introduces a more flexible hedge accounting model which is better aligned to the economic realities and risk management activities undertaken across both Pepper and the broader financial services sector.

Adoption of the new hedge accounting model is optional and current hedge accounting under AASB 139 can continue to be applied until the IASB completes its "accounting for dynamic risk management" project.

The Group has determined that, if implemented today, the impact of the new standard would be negligible due to the nature of the Group's current hedging activities.

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. As the effect the new standard could have on the financial results of the Group will change as the circumstances of the Group change up to the point of initial adoption, it is not yet practical to reliably conclude on the final impact on the financial statements.

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

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

There have been no other new or amended accounting standards during the reporting period ended 31 December 2016 that have had or may have a significant impact on the financial results of the Group.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of judgements, 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 judgements 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 intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which the intangible has been allocated. The value in use calculation requires management to estimate both 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

Measurement of financial instruments at amortised cost using the effective interest rate method requires calculations based on reliably estimated cash flows through the expected life of financial instruments incorporating behavioural modelling of prepayments. Any fee income accounted for using the effective interest rate method is assessed by management who apply judgement to ensure recognition in the most appropriate period. For further information please see note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

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

Calculation

	Year ended 31 December 2016	Year ended 31 December 2015
Profit for the period attributable to the owners of the Company ($'000)	**61,664**	3,457
Weighted average number of ordinary shares (thousand):		
Issued ordinary shares at the start of the period	**173,390**	103,838
Effect of allotment and issuances	**-**	69,552
Issued ordinary shares at the end of the period[1]	**173,390**	173,390
Weighted average number of shares (basic)	**173,390**	133,791
Dilutive effect of share options in issue during the period	**4,605**	1,662
Weighted average number of shares (diluted)	**177,995**	136,961

	cents	cents
Basic earnings per share	**36**	3
Diluted earnings per share	**35**	3

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 and advances are measured on an amortised cost basis in the balance sheet. Revenue is generally recognised over the life of the loan, taking into account all income and expenditure directly attributable to the loan. 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.

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.

NOTE 5 – REVENUE AND EXPENSES (CONT.)

Revenue recognition (cont.)

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.

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

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
(a) Revenue		
Interest revenue:		
– Interest from customers	**461,152**	320,623
– Interest from investments	**2,581**	5,224
– Bank interest	**8,874**	7,186
Total interest revenue	**472,607**	333,033
Fee revenue:		
– Servicing fees	**128,904**	127,402
– Advisory fees	**11,646**	11,851
– Other fee revenue	**39,218**	44,458
Total fee revenue	**179,768**	183,711
Total interest and fee revenue	**652,375**	516,744
Other revenue:		
– Loan sale revenue	**31,697**	5,621
– Other revenue	**524**	5,364
Total other revenue	**32,221**	10,985
Total revenue	**684,596**	527,729

Expense recognition policy

Employee benefits

Employee benefits expenses are recorded for benefits to employees primarily 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 on notes issued and other interest paid on non-securitised funding facilities and are recognised under the effective interest rate method. See further detail under the Revenue section of this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 5 – REVENUE AND EXPENSES (CONT.)

Loan loss expenses

Loan loss expenses include certain specific and collective provision movements for loan impairment and other direct loan write-offs recorded during the year.

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
(b) Expenses		
Employee benefits expenses	**194,812**	195,966
Depreciation and amortisation expenses:		
Amortisation of intangibles	**4,764**	9,861
Depreciation of property, plant and equipment	**4,587**	4,194
	9,351	14,055
Borrowing costs:		
Interest – deposits	**27,766**	13,877
Interest – paid on Group funding sources and other borrowing costs	**222,364**	195,919
	250,130	209,796
Loan loss expenses	**64,113**	24,420

The loan loss expense increase is commensurate with the significant absolute increase in the number of loans originated as well as reflecting the change in loan portfolio mix with increased contribution from higher margin personal loans and auto and equipment loans.

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Other expenses from operations:		
Legal, consulting, audit, and other professional fees	**19,432**	14,303
Trustee expenses, loan servicer fees, and loan enforcement expenses	**9,656**	9,067
Publications and advertising	**9,668**	6,581
Travel	**5,847**	4,562
Rent and other premises related expenses	**14,882**	12,840
Computer, Internet, communication and information services	**13,754**	9,486
Insurance	**6,428**	3,249
GST input tax losses	**4,988**	3,789
Printing, stationery and postage	**2,972**	3,047
Other expenses	**8,285**	9,514
Total other expenses from operations	**95,912**	76,438

NOTE 6 – SEGMENT 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[1]:

- 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 third-party funding vehicles and property advisory services. 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.
- The Europe Division[1] includes the revenues and direct expenses associated with loan origination, servicing and other operations conducted by Pepper in Spain, Ireland and the United Kingdom. The products and services offered currently include residential mortgage loans, point-of-sale finance and personal loans and the servicing and management of both Pepper-controlled and third-party funding vehicles.
- The Asia Division[1] includes the revenues and direct expenses associated with lending and servicing operations conducted by Pepper in South Korea and in Hong Kong and China through the Group's investment in Prime Credit. The products and services offered currently include residential mortgage loans, point-of-sale finance and personal loans and SME lending. Equity accounted profits from Pepper's 12% equity interest in Prime Credit are reported as a share of associate profit or loss in this 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 believes 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 other divisions listed above (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 2016	ANZ Division $'000	Europe Division $'000	Asia Division $'000	Corporate Division $'000	Total $'000
Revenue					
Interest revenue external to the Group	320,417	37,965	113,888	337	472,607
Intersegment revenue and expenses	2,471	(2,142)	(329)	–	–
Fee revenue	44,687	130,375	4,527	179	179,768
Other revenue	23,378	(415)	9,328	(70)	32,221
Expenses					
Depreciation and amortisation	(3,843)	(3,459)	(1,909)	(140)	(9,351)
Borrowing costs	(205,155)	(11,600)	(27,835)	(5,540)	(250,130)
Loan loss expenses	(22,188)	(3,734)	(38,191)	–	(64,113)
Employee and other operating expenses	(100,001)	(127,484)	(38,182)	(25,057)	(290,724)
Other net income					
Equity profits from associates	–	–	9,030	–	9,030
Profit before tax	**59,766**	**19,506**	**30,327**	**(30,291)**	**79,308**
Taxation	(17,930)	(3,128)	(4,915)	8,314	(17,659)
Profit after tax	**41,836**	**16,378**	**25,412**	**(21,977)**	**61,649**
Balance sheet					
Total assets	6,334,257	447,376	1,530,801	–	8,312,434
Total liabilities	5,878,287	450,776	1,491,441	38,159	7,858,663
Investment in associates	–	–	99,279	–	99,279

Note

1 – The 'Asia Division' and 'Europe Division' segments have been reported separately in 2016 in comparison to 2015 when they were jointly included within the 'International Division'. Management believes this level of segmentation is more reflective of how the Group's performance is managed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 6 – SEGMENT REPORTING (CONT.)

Year ended 31 December 2015	ANZ Division $'000	Europe Division $'000	Asia Division $'000	Corporate Division $'000	Total $'000
Revenue					
Interest revenue external to the Group	269,376	21,580	42,077	–	333,033
Intersegment revenue and expenses	1,127	(1,127)	–	–	–
Fee revenue	45,826	134,223	3,662	–	183,711
Other revenue	1,280	4,092	5,613	–	10,985
Expenses					
Depreciation and amortisation	(3,142)	(9,103)	(1,810)	–	(14,055)
Borrowing costs	(181,369)	(9,336)	(13,878)	(5,213)	(209,796)
Loan loss expenses	(11,036)	(1,670)	(11,714)	–	(24,420)
Employee and other operating expenses	(87,735)	(130,330)	(33,536)	(20,803)	(272,404)
Other net income					
Equity profits from associates	–	–	3,143	–	3,143
Profit before tax	34,327	8,329	(6,443)	(26,016)	10,197
Taxation	(13,244)	(4,134)	752	9,834	(6,792)
Profit after tax	21,083	4,195	(5,691)	(16,182)	3,405
Balance sheet					
Total assets	5,365,733	235,434	945,208	–	6,546,375
Total liabilities	5,096,696	165,532	859,350	16,182	6,137,760
Investment in associates	–	–	94,075	–	94,075

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 follows items to which it relates. Tax effects arising from the initial recognition of a business combination are 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.

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 the asset 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 2016 $'000	Year ended 31 December 2015 $'000
(a) Income tax recognised in profit or loss		
Current tax		
Current tax expense in respect of the current year	**13,637**	11,027
Adjustments recognised in the current year in relation to the current tax of prior years	**14**	435
	13,651	11,462
Deferred tax		
Deferred tax (credit)/expense recognised in the current year	**3,402**	(4,846)
Adjustments recognised in the current year in relation to the deferred tax of prior years	**606**	176
	4,008	(4,670)
Total income tax expense recognised in the current year relating to continuing operations	**17,659**	6,792
(b) The income tax expense for the year can be reconciled to the accounting profit as follows:		
Profit before tax from continuing operations	**79,308**	10,197
Income tax expense calculated at 30% (2015: 30%)	**23,792**	3,059
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(5,226)**	(821)
Effect of income that is exempt from taxation	**(2,973)**	(943)
Effect of expenses that are not deductible in determining taxable profit	**1,806**	5,095
Recognition of tax assets relating to accumulated tax losses	**(865)**	(409)
Other	**505**	200
	17,039	6,181
Adjustments recognised in the current year in relation to the income tax of prior years	**620**	611
Income tax expense recognised in profit or loss (relating to continuing operations)	**17,659**	6,792

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 7 – TAXATION (CONT.)

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
(c) Income tax recognised in other comprehensive income		
Current tax	**-**	–
Deferred tax	**3,858**	2,300
Total income tax recognised in other comprehensive income	**3,858**	2,300
(d) Deferred tax balances		
Opening balance	**15,656**	4,839
Recognised in the income statement	**(4,008)**	4,670
Recognised in other comprehensive income	**3,858**	2,300
Recognised directly in equity	**-**	3,779
Other	**(36)**	–
Foreign currency differences arising on consolidation	**(96)**	68
Closing balance	**15,374**	15,656
Breakdown of closing balance as follows:		
Employee expenses	**4,382**	3,965
Provisions	**564**	566
Deferred expenses	**(8,309)**	(4,538)
Doubtful debts	**4,206**	3,624
Deferred revenue	**(351)**	(120)
Other financial assets	**4,248**	63
Intangible assets	**(647)**	(899)
Cashflow hedge reserve	**1,497**	698
Recognition of tax assets relating to tax losses	**9,134**	11,400
Other	**650**	897
	15,374	15,656
Deferred tax balances are presented in the balance sheet as follows:		
Deferred tax assets	**15,374**	16,461
Deferred tax liabilities	**-**	(805)
	15,374	15,656

(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

These investments are 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 rate 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.

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

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Available-for-sale investment securities		
– Government bonds	**80,666**	–
– Corporate bonds	**–**	1,197
Total investment securities	**80,666**	1,197

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 does not consider core to the Group's business.

Trail commission deed receivables

Trail commission deed receivables are amounts due and payable from third parties. See note 18 for trail commission liabilities.

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Trail commission deed receivables	**4,223**	4,221
Trade receivables	**60,197**	57,956
Other debtors	**13,316**	8,510
Total receivables	**77,736**	70,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 $'000	As at 31 December 2015 $'000
Loans and advances by legal structure		
Loans and advances residing in securitised trusts	**2,867,865**	2,348,819
Loans and advances residing in funding warehouses	**2,973,163**	2,635,702
Loans and advances residing in corporate entities	**1,231,737**	667,739
Total loans and advances	**7,072,765**	5,652,260
Loans and advances by product		
Residential mortgages	**5,101,150**	4,507,182
Auto and equipment finance	**928,763**	414,093
Point-of-sale finance	**135,941**	107,842
Personal loans	**751,603**	457,385
Commercial loans and other	**155,308**	165,758
Total loans and advances	**7,072,765**	5,652,260

Impairment provisions (included in the balances above):

	Period ended 31 December 2016 $'000	Period ended 31 December 2015 $'000
Specific impairment provision		
Opening balance	**12,238**	11,922
Provided for during the year	**23,344**	11,801
Loan assets written-off, sold or reversed, previously provided for	**(21,073)**	(11,878)
Effect of currency translation differences	**(126)**	393
Specific impairment provision	**14,383**	12,238
Collective provision		
Opening balance	**12,054**	5,812
Provided for during the year	**38,949**	13,417
Loan assets written-off or sold, previously provided for	**(20,906)**	(7,340)
Amounts transferred from receivables during the year	**1,680**	–
Effect of currency translation differences	**(285)**	165
Collective provision	**31,492**	12,054
Total impairment provisions	**45,875**	24,292

The loan loss provision increase is commensurate with the significant absolute increase in the number of loans originated as well as reflecting the change in loan portfolio mix with increased contribution from higher margin personal loans and auto and equipment loans.

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.

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Investments classified as loans and receivables	**22,256**	30,544
Collateral repossessed	**7,054**	7,162
Other investments[1]	**6,957**	4,726
Total other investments	**36,267**	42,432

Note

1 – Other investments primarily include equity investments and are held at fair value.

$13m of the total balance as at 31 December 2016 is expected to be recovered within 12 months.

NOTE 12 – OTHER ASSETS

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

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Prepayments	**9,558**	3,717
Property related security deposits	**6,937**	5,290
Other[1]	**11,568**	4,395
Total other assets	**28,063**	13,402

Note

1 – Includes $8.9m ($0.2m) of costs capitalised as part of projects in progress, yet to be finalised and reclassified to specific asset classes.

$11m of the total balance as at 31 December 2016 is expected to be recovered within 12 months.

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 amounts of equity-accounted investments are reviewed for impairment indicators at each reporting period and are tested for impairment when indicators of impairment exist.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 13 – INVESTMENT IN ASSOCIATES (CONT.)

Prime Credit Holdings Limited

Prime Credit Holdings Limited is a consumer finance business in Hong Kong and China. 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 (Australian dollars) at each reporting date, as described in note 1. The summarised financial information presented below in accordance with AASB 12 is the Australian dollar equivalent amounts.

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Investment in Prime Credit Holdings Limited	**99,279**	94,075

			Ownership % and voting power held by the Group	
Name of associate	**Principal activity**	**Place of incorporation**	**31 December 2016**	31 December 2015
Prime Credit Holdings Limited	Financing	Hong Kong	12%	12%

Prime Credit Group's summarised financial information:	**As at 31 December 2016 $'000**	As at 31 December 2015 $'000
Balance Sheet		
Current assets	**228,563**	208,397
Non-current assets	**1,897,243**	1,730,698
Total Assets	**2,125,806**	1,939,095
Current liabilities	**(50,371)**	(48,258)
Non-current liabilities	**(1,267,928)**	(1,126,479)
Total Liabilities	**(1,318,299)**	(1,174,737)
Net assets	**807,507**	764,358

Income statement	**Year ended 31 December 2016 $'000**	Year ended 31 December 2015 $'000
Revenue	**286,251**	180,811
Profit after tax	**75,250**	26,188
Other comprehensive income	**(4,649)**	(4,813)
Total comprehensive income	**70,601**	21,375
Reconciliation to carrying amounts:		
Carrying amount of Investment	**99,279**	94,075
Group's share of profit after tax for the period	**9,030**	3,143
Group's share of net assets (12% of Prime Credit Group's net assets)	**96,901**	91,723
Acquisition costs	**2,378**	2,352
Total capitalised cost of Investment	**99,279**	94,075
Dividends received from Prime Credit Holdings Limited	**4,398**	$nil

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 consideration over and above the identifiable net assets on acquisition of Pepper Property Group in Australia and the Oakwood servicing business in the UK.
- *Mortgage servicing rights* – The servicing rights relate to contracts acquired by the business 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.
- *Licence fees and software* – Licence fees and other information and technology costs recognised within the Group.

	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 2014	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	(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
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**
Acquisitions through business combinations	**-**	**-**	**-**	**-**	**-**	**-**
Costs capitalised during the year	**6,762**	**-**	**-**	**6,762**	**-**	**6,762**
Disposal write-offs	**-**	**-**	**-**	**-**	**-**	**-**
Amortisation expense	**(4,259)**	**(505)**	**-**	**(4,764)**	**-**	**(4,764)**
Effect of currency translation differences	**(113)**	**(641)**	**(378)**	**(1,132)**	**(2,573)**	**(3,705)**
Net book value at 31 December 2016	**12,782**	**3,205**	**24,553**	**40,540**	**22,195**	**62,735**
Made up of:						
Gross carrying amount	**22,990**	**4,748**	**24,553**	**52,291**	**22,195**	**74,486**
Accumulated amortisation	**(10,208)**	**(1,543)**	**-**	**(11,751)**	**-**	**(11,751)**
Net book value at 31 December 2016	**12,782**	**3,205**	**24,553**	**40,540**	**22,195**	**62,735**

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 – two to three years.
- Mortgage servicing rights – over the average expected life of the rights – up to 10 years.
- South Korean mutual banking registration – indefinite life (not amortised).
- Goodwill – indefinite life (not amortised).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 14 – INTANGIBLE ASSETS AND GOODWILL (CONT.)

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 savings bank 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. Before recognition of impairment losses, the carrying amount of the KMBR was allocated to the South Korean cash-generating unit for impairment testing purposes 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)	South Korea	Pepper Property Group	United Kingdom
Nature of intangible asset	Banking registration	Goodwill	Goodwill
Recoverable amount methodology used	Value in use	Value in use	Value in use
Period ended 31 December 2016:			
Carrying amount of intangible asset ($'000)	24,553	7,703	14,492
Valuation assumptions used:			
– Forecast period	3 years	3 years	3 years
– Average revenue growth rate	25.21%	9.22%	21.08%
– Long-term growth rate (beyond year 3)	0.90%	2.00%	0.61%
– Pre-tax discount rate applied	10.60%	11.00%	9.20%
Period ended 31 December 2015:			
Carrying amount of intangible asset ($'000)	24,931	7,703	17,065
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%
– Pre-tax discount rate applied	11.10%	11.40%	10.30%

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 considers 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 three-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 2016, 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	**As at 31 December 2016 $'000**	As at 31 December 2015 $'000
At call	**56,545**	9,952
Term deposits	**1,326,556**	750,342
Total deposits	**1,383,101**	760,294

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.

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Trade payables	**8,454**	14,692
Accrued expenses	**23,224**	10,733
Total trade and other payables	**31,678**	25,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 rate method. For further detail on the amortised cost basis of accounting see note 5 Revenue and expenses.

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Non-recourse facilities		
Securitised funding facilities	**3,122,689**	2,577,597
Warehouse facilities – secured	**2,988,954**	2,585,927
Corporate debt facilities	**141,200**	38,001
Total borrowings	**6,252,843**	5,201,525

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. Corporate debt facilities are secured over certain assets of the Group.

Non-recourse facilities

During the year ended 31 December 2016, $1.5bn of new securitised funding facilities were obtained (31 December 2015: $1.2bn) and $239m of existing securitised funding facilities were repaid in full (31 December 2015: $116m).

Corporate debt facilities

As at 31 December 2016 the Group had an undrawn balance of $67m on its corporate debt facility (31 December 2015: $92m). In accordance with the terms of the Group's corporate debt facilities, Pepper is required to comply with certain covenants. During the period and as at 31 December 2016, the Group was compliant with these covenants.

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.

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Trail commissions payable to third parties	**7,014**	8,504
Settlement balances	**104,151**	69,726
Other	**36,988**	36,642
Total other liabilities	**148,153**	114,872

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 two and 10 years. Most operating lease contracts over two 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	**As at 31 December 2016 $'000**	As at 31 December 2015 $'000
Not later than one year	**10,960**	7,357
Later than one year and not later than five years	**32,682**	15,420
Later than five years	**9,987**	365
Total commitments	**53,629**	23,142

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 predominantly 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 the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 20 – PROVISIONS (CONT.)

	Bonuses and other employee benefits $'000	Other provisions $'000	Total $'000
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
Increase in provisions	**32,181**	**–**	**32,181**
Provisions utilised	**(25,741)**	**(46)**	**(25,787)**
Exchange differences	**(1,199)**	**–**	**(1,199)**
Balance at 31 December 2016	**34,735**	**78**	**34,813**
Expected timing for utilisation of provisions:			
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
Less than 12 months	**31,483**	**–**	**31,483**
Greater than 12 months	**3,252**	**78**	**3,330**
Balance at 31 December 2016	**34,735**	**78**	**34,813**

NOTE 21 – ISSUED CAPITAL

	31 December 2016		31 December 2015	
As at	**Number of shares '000**	**$'000**	Number of shares '000	$'000
Pepper Group Limited ordinary shares	**181,955**	**298,080**	181,122	296,065

Ordinary shares carry one vote per share and carry the right to dividends.

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 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	117,717	–	–	–	117,717
New shares issued as part of IPO	53,242	–	–	–	53,242
Shares issued under employee share plans	10,163	–	–	–	10,163
As at 31 December 2015	**181,122**	**–**	**–**	**–**	**181,122**
Shares issued under employee share plans	**833**	**–**	**–**	**–**	**833**
Other shares issued	**–**	**–**	**–**	**–**	**–**
As at 31 December 2016	**181,955**	**–**	**–**	**–**	**181,955**

NOTE 21 – ISSUED CAPITAL (CONT.)

Current year

During the year the Company issued eight hundred and thirty-three thousand shares under its long-term employee incentive share scheme.

Prior year

During 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.

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 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**
Shares issued under employee share plans	**2,015**	**–**	**–**	**–**	**2,015**
Other shares issued	**–**	**–**	**–**	**–**	**–**
As at 31 December 2016	**298,080**	**–**	**–**	**–**	**298,080**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 22 – OTHER EQUITY AND OTHER RESERVES

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.
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.

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Employee benefits reserve	**6,857**	6,854
Common control reserve	**(18,653)**	(18,653)
Treasury shares	**(12,548)**	(10,533)
Total other equity	**(24,344)**	(22,332)
Currency translation reserve	**11,873**	18,839
Cashflow hedge reserve	**(3,441)**	(1,629)
Total other reserves	**8,432**	17,210

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 2016**	31 December 2015
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 Limited	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 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 limited recourse entities in which it has interests to be structured entities.

Consolidated structured entities

Pepper primarily utilises warehouse facilities and the securitisation markets to fund the origination of new loans.

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

Periodically, warehouse facilities are refinanced through term securitisations involving the issuance of asset-backed securities which are long-term match funding transactions placed by Pepper through the debt capital markets to a range of financial investors.

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

Pepper's limited-recourse financing structures transfer the risk of credit losses on mortgage portfolios to the capital providers to the funding vehicles. Pepper's exposure to losses is therefore limited to its rights to current and future residual income from its funding vehicles, along with the value of the equity notes that Pepper contributes as "first loss" capital to the funding vehicles.

Should a material increase in losses on Pepper's mortgages occur, the level of income available for distribution from the funding vehicles will decline, resulting in a reduction in equity note coupons and residual income paid to Pepper by the funding vehicles.

As losses increase beyond certain thresholds, the funding vehicles would cease distributing residual income and making distributions on Pepper's equity notes, and cash will instead be applied to repay the senior and mezzanine funding components of the funding vehicles; however, Pepper will have no legal obligation to contribute additional capital to offset the realised losses. In such a scenario, Pepper is able to increase the interest rate that it charges to its mortgage customers in order to offset the reduction in income due to credit losses.

Pepper is deemed to control these funding structures for accounting purposes due to the combination of Pepper's investment in each funding vehicle (exposure to variable interest) and Pepper's role as servicer (power to influence those variable returns). As a result, Pepper consolidates the assets and liabilities, income and expenses of most of these entities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 24 – STRUCTURED ENTITIES (CONT.)

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 2016	**Commercial $'000**	**Residential $'000**	**Consumer $'000**	**Total $'000**
Balance Sheet				
Assets				
Investments in non-consolidated SPVs[1]	**22,256**	**–**	**–**	**22,256**
Receivables from non-consolidated SPVs[2]	**1,607**	**375**	**711**	**2,693**
Total assets	**23,863**	**375**	**711**	**24,949**
Maximum exposure to loss	**23,863**	**375**	**711**	**24,949**

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
Receivables from 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

Notes

1 – Investments in non-consolidated SPVs (commercial) 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.

NOTE 25 – RELATED PARTIES

The parent entity of the Group is Pepper Group Limited. Interests in material subsidiaries are outlined in note 23.

Key management personnel compensation

Key management personnel remuneration	**Year ended 31 December 2016 $'000**	Year ended 31 December 2015 $'000
Short-term employee benefits	**4,277**	4,369
Post-employment benefits	**72**	71
Share-based payments	**597**	457
	4,946	4,897

Detailed remuneration disclosures are provided in the remuneration report on pages 22 to 34.

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's long-term incentive plan. On consolidation these amounts are classified as treasury shares and are not included in the balances below (refer to note 22).

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 2016 $'000**	Year ended 31 December 2015 $'000
Fees and other revenue received from associates	**4,610**	2,956
Dividend received from associates	**4,398**	–
Interest received from other related parties	**1,471**	915
Fees and other revenue received from other related parties[1]	**934**	9,455
Total revenue received	**11,413**	13,326
Interest paid to other related parties[2]	**(194)**	(3,725)
Fees and other expenses paid to other related parties	**(304)**	(337)
Total expenses paid	**(498)**	(4,062)
Balances held with related parties (excluding employees)		
Receivables due from associates	**3,677**	2,129
Receivables due from other related parties	**81**	252
Liabilities due to other related parties[2]	**-**	(32,100)
Total net receivables due from/(due to) related parties	**3,758**	(29,719)

Notes

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

2 – 2015 balances primarily relate to related parties who had investments in the debt securities of Pepper's limited recourse vehicles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 balances that are 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 2016 $'000	Year ended 31 December 2015 $'000
Cash and cash equivalents held in corporate entities[1]	**266,338**	225,822
Cash and cash equivalents held in limited recourse entities	**515,738**	329,915
Cash and cash equivalents	**782,076**	555,737

Note

1 – $104m of this balance relates to cash and cash equivalents held on trust to be paid on to third parties in Pepper's servicing businesses (31 December 2015: $70m).

(b) Reconciliation of profit for the year to net cash flows from operating activities[1]	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Net profit after tax for the year	**61,649**	3,405
Non-cash items:		
Depreciation and amortisation expenses	**9,351**	14,055
Loan loss expenses	**64,113**	24,420
Share of profit from associates	**(9,030)**	(3,143)
Share-based payment expense	**2,793**	32,863
Tax expense	**17,659**	7,080
Cash movements in:		
Receivables	**118**	(6,628)
Other assets	**10,595**	55,470
Loans and advances	**62,723**	(11,125)
Other investments	**(650)**	(8,151)
Trade payables	**9,654**	1,562
Borrowings	**699**	(31,317)
Other liabilities	**(26,059)**	55,202
Provisions	**(4,565)**	9,503
Other movements	**(48,489)**	(39,659)
Total operating cash movements	**150,561**	103,537

Note

1 – Due to the increased granularity of the 2016 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 2016 categories.

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 limited 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: • 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 have been fully expensed but participants are still subject to limited restrictions.	Closed – subject to limited restrictions.
Non-Executive Director Options	On 5 August 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 are not subject to any performance or service conditions.	Open
Employee Gift Offer	During 2015, 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

1 – The weighted average fair value of the share options (excluding loan shares) granted during 2015 was 43 cents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 the awards were delivered using a combination of Performance Rights and a loan to acquire Loan Shares. The 2015 and 2016 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 (including loan shares) granted during the year was 29 cents (31 December 2015: 18 cents[1]). 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 share-based payment arrangements were in existence within the Group as at 31 December 2016:

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	05/08/2015	05/08/2022	$2.60	$0.12
Long-term incentive schemes – Rights	1,312,055	05/08/2015	n/a	$nil	$0.31
Long-term incentive schemes – Loan Shares	832,478	05/04/2016	05/04/2023	$2.42	$0.29
Long-term incentive schemes – Rights	965,620	05/04/2016	n/a	$nil	$0.75

Option Series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Tranche 1 – Non-Executive Options	100,000	05/08/2015	05/08/2022	$2.60	$0.32
Tranche 2 – Non-Executive Options	100,000	05/08/2015	05/08/2023	$2.60	$0.44
Tranche 3 – Non-Executive Options	100,000	05/08/2015	05/08/2024	$2.60	$0.53

Note

1 – The weighted average fair value of the share options (excluding loan shares) granted during 2015 was 43 cents.

NOTE 27 – SHARE-BASED PAYMENTS (CONT.)

Quantitative data (cont.)

The following 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	05/08/2015	05/08/2022	$2.60	$0.12
Long-term incentive schemes – rights	1,312,055	05/08/2015	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	05/08/2015	05/08/2022	$2.60	$0.32
Tranche 2 – Non-Executive options	100,000	05/08/2015	05/08/2023	$2.60	$0.44
Tranche 3 – Non-Executive options	100,000	05/08/2015	05/08/2024	$2.60	$0.53

Movements in share-based payment arrangements during the year

The following reconciles the Group's share options and long-term 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 2014	–	–	–	–	17,971	247.13
Granted during the year	1,361,880	2.60	1,312,055	–	300,000	2.60
Exercised during the year	–	–	–	–	(17,971)	211.42
At 31 December 2015	**1,361,880**	**2.60**	**1,312,055**	**–**	**300,000**	**2.60**
Granted during the year	**832,478**	**2.42**	**965,620**	**–**	**–**	**–**
Exercised during the year	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2016	**2,194,358**	**2.53**	**2,277,675**	**–**	**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 2016 $'000	Year ended 31 December 2015 $'000
Audit or review of the financial statements – Deloitte Touche Tohmatsu	**1,869**	1,651
Audit or review of the financial statements – Other firms	**652**	465
Services in connection with Initial Public Offering	**–**	1,177
Advisory services	**605**	2,079
Total auditor remuneration	**3,126**	5,372

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 its statutory audit duties, in compliance with the Group's independence policies, where Deloitte Touche Tohmatsu's expertise and experience with the Group are important.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 $'000	As at 31 December 2015 $'000
Cash and cash equivalents	Amortised cost	**782,076**	555,737
Investment securities – available-for-sale securities	Fair value through OCI	**80,666**	1,197
Derivative financial assets	Fair value	**35,512**	23,080
Receivables	Amortised cost	**77,736**	70,687
Other investments	Various – see note 11	**29,213**	35,270
Loans and advances	Amortised cost	**7,072,765**	5,652,260
Total financial assets		**8,077,968**	6,338,231

Financial liabilities	Basis of measurement	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Deposits	Amortised cost	**1,383,101**	760,294
Trade and other payables	Amortised cost	**31,678**	25,425
Derivative financial liabilities	Fair value through profit or loss	**2,607**	1,954
Borrowings	Amortised cost	**6,252,843**	5,201,525
Total financial liabilities		**7,670,229**	5,989,198

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)	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Investment securities	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, appropriate discount rates.	**80,666**	1,197
Interest rate swaps	Level 2	Discounted cash flow. Forward interest rates, contract interest rates, appropriate discount rates.	**(1,777)**	(1,954)
Cross currency interest rate swaps	Level 2	Discounted cash flow. Forward exchange rates, contract forward rates, appropriate discount rates.	**34,682**	23,080

In the year to 31 December 2016 there has been no change in the fair value hierarchy or the valuation techniques applied to any of the balances above.

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

NOTE 29 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT.)

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 2016		As at 31 December 2015	
	Carrying value $'000	**Fair value $'000**	Carrying value $'000	Fair value $'000
Loans and advances	**7,072,765**	**7,076,786**	5,652,260	5,658,619
Other investments	**22,256**	**22,391**	30,544	31,478

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.

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, deposits, derivative financial liabilities 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 or fair value hedge accounting.

The Group uses cash flow hedges and fair value hedges to hedge both cash flow and fair value risk associated with funding received in foreign currencies and at variable interest rates.

Cash flow hedges are accounted for as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

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NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

- 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 period 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.

Fair value hedges are accounted for as follows:

- The fair value gain or loss associated with the derivative is recognised in profit or loss.
- The fair value gain or loss associated with the hedged item is recognised in profit or loss.

During the year the fair value movement on the derivative and the hedged item offset 100% with no ineffectiveness.

Quantitative information

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Derivative assets		
Interest rate swaps – cash flow hedges	**830**	–
Cross currency interest rate swaps – cash flow hedges	**34,682**	23,080
Total derivative assets	**35,512**	23,080
Derivative liabilities		
Interest rate swaps – cash flow hedges	**1,149**	1,870
Interest rate swaps – fair value hedges	**1,458**	–
Interest rate swaps – economic hedges FVTPL	**-**	84
Total derivative liabilities	**2,607**	1,954
Ineffectiveness recorded in the income statement	**-**	127

Of the total derivative asset balance as at 31 December 2016 $24.8m is expected to be recovered within 12 months.

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:

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Cash and cash equivalents	**782,076**	555,737
Investment securities	**80,666**	1,197
Derivative financial assets	**35,512**	23,080
Receivables	**77,736**	70,687
Other investments subject to credit risk	**22,256**	34,704
Financial assets other than loans and advances	**998,246**	685,405
Loans and advances at amortised cost – balances subject to credit risk	**7,035,583**	5,639,700
Total potential exposure to credit risk	**8,033,829**	6,325,105

As at 31 December 2016, over 79% 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 2015: over 82%).

In addition to the balances in the table above, the Group had $592m of undrawn customer facilities as at 31 December 2016 (31 December 2015: $610m).

NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

Derivatives and hedge accounting (cont.)

Distribution of financial assets by credit quality

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Neither past due or impaired		
Gross loans and advances	**6,421,907**	5,143,587
Financial assets other than loans and advances	**996,785**	683,499
Past due but not impaired		
Gross loans and advances	**550,617**	455,130
Financial assets other than loans and advances	**1,461**	–
Impaired		
Gross loans and advances	**63,059**	40,983
Financial assets other than loans and advances	**–**	1,906
	8,033,829	6,325,105

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

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Neither past due or impaired		
Australia	**4,890,256**	4,308,310
Asia	**1,103,434**	675,213
Europe	**428,217**	160,064
Past due but not impaired		
Australia	**515,706**	434,946
Asia	**34,322**	19,698
Europe	**589**	486
Impaired		
Australia	**18,584**	19,765
Asia	**39,172**	21,218
Europe	**5,303**	–
	7,035,583	5,639,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

Loans and advances past due but not impaired

Days past due	**As at 31 December 2016 $'000**	As at 31 December 2015 $'000
Less than 30 days	**357,959**	302,316
31 to 90 days	**123,329**	96,995
More than 90 days	**69,329**	55,819
	550,617	455,130

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, secured debt facilities (maturing in November 2019), balance sheet cash and customer deposits in the case of South Korea.

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, $4.571bn at 31 December 2016 (31 December 2015: $4.577bn), they have not all 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.

At 31 December 2016	**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	**1,383,101**	**56,545**	**283,389**	**282,605**	**827,546**	**–**	**1,450,085**
Payables and other liabilities	**31,678**	**4,243**	**20,372**	**6,447**	**616**	**–**	**31,678**
Borrowings	**1,501,337**	**–**	**16,481**	**250,306**	**1,353,966**	**–**	**1,620,753**
Derivative liabilities	**2,607**	**–**	**146**	**437**	**2,077**	**(52)**	**2,608**
Total	**2,918,723**	**60,788**	**320,388**	**539,795**	**2,184,205**	**(52)**	**3,105,124**

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
Trade and other payables	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

Note

1 – Contractual cash flows include interest payable.

Pepper Savings Bank in South Korea (the Bank) is governed by the country's Mutual Savings Bank Act and is regulated by the Financial Supervisory Service and Financial Services Commission. The Bank must hold a portion of highly liquid assets on its balance sheet to meet regulatory liquidity requirements and hold regulatory capital against its assets in South Korea. The Bank is currently required to maintain a minimum South Korean regulatory Bank for International Settlements (BIS) capital ratio of 7%. As of 31 December 2016, the Group is compliant with the regulatory requirement.

NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

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.

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 +/-	**Year ended 31 December 2016 $'000**	Year ended 31 December 2015 $'000
Borrowing costs in special purpose entities	**4,568**	3,337

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 +/-	**Year ended 31 December 2016 $'000**	Year ended 31 December 2015 $'000
Corporate interest revenue	**1,360**	661
Corporate funding costs	**(1,262)**	(596)
Total impact on corporate interest	**98**	65

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 Euro, South Korean Won, Pound Sterling, Chinese Yuan, Hong Kong Dollar and United States 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 30 – FINANCIAL RISK MANAGEMENT (CONT.)

10% variance +/-	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Change in AUD : EUR exchange rate	4,404	3,720
Change in AUD : KRW exchange rate	1,637	876
Change in AUD : GBP exchange rate	920	626
Change in AUD : HKD exchange rate	907	320
Change in AUD : USD exchange rate	560	213

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 2016 $'000	Year ended 31 December 2015 $'000
Revenue	**152,879**	110,446
Expenses	**(117,106)**	(105,392)
Profit before tax	**35,773**	5,054
Income tax expenses	**(7,714)**	(2,168)
Profit after tax	**28,059**	2,886
Currency translation reserve movements	**-**	(967)
Total comprehensive income for the year	**28,059**	1,919

Balance Sheet	As at 31 December 2016 $'000	As at 31 December 2015 $'000
Current assets	**262,640**	194,397
Non-current assets	**340,868**	299,101
Total assets	**603,508**	493,498
Current liabilities	**1,403**	5,532
Non-current liabilities	**183,323**	88,925
Total liabilities	**184,726**	94,457
Total net assets	**418,782**	399,041
Issued capital	**298,080**	296,065
Treasury shares	**(6,658)**	(3,444)
Equity-settled employee benefits reserve	**7,106**	6,126
Retained earnings	**120,254**	100,294
Total equity	**418,782**	399,041

Guarantees, contingent liabilities and contingent assets

At 31 December 2016 the Company has provided $78m in financial guarantees over funding received by entities within the Group (31 December 2015: $26.5m).

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

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

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

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

Since July 2016 both parties have been working towards completion of the transaction including seeking to satisfy the conditions precedent. Satisfaction of these conditions precedent has taken longer than anticipated, such that, since the end of the financial year, the contractual deadline for doing so has now passed.

As a result, the agreements between Pepper and Banco Popular in relation to the strategic partnership and related arrangements are no longer legally binding upon them, however, the parties continue to discuss the possible completion of the deal on substantially the same terms as were agreed in July 2016.

ADDITIONAL COMPANY INFORMATION

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

Registered office
Level 27, 177 Pacific Highway
North Sydney NSW 2060

Principal place of business
Level 27, 177 Pacific Highway
North Sydney NSW 2060

SHAREHOLDER INFORMATION

Share Capital
Pepper has on issue 181,954,584 fully paid ordinary shares held by 566 holders as at 5 April 2017.

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

Twenty largest shareholders as at 5 April 2017
The following table sets out the top 20 registered holders of shares:

Rank	Holder name	Balance at 5 April 2017
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	68,081,172
2.	CITICORP NOMINEES PTY LIMITED	17,452,798
3.	JP MORGAN NOMINEES AUSTRALIA LIMITED	15,210,836
4.	UBS NOMINEES PTY LTD	11,158,328
5.	CVI CVF II LUX SECURITIES TRADING SARL	10,952,500
6.	CULHANE FAMILY INVESTMENTS PTY LIMITED <CULHANE FAMILY A/C>	8,300,760
7.	ECCLESTON CORPORATION PTY LTD <THE TAMWORTH A/C>	7,368,491
8.	MILAN MARKOVIC	3,869,116
9.	CPU SHARE PLANS PTY LTD <PEP GLO CONTROL A/C>	3,178,850
10.	SARAH JANE HOLMES	2,934,960
11.	CPU SHARE PLANS PTY LTD <PEP GLR UNALLOCATED A/C>	2,558,000
12.	NATIONAL NOMINEES LIMITED	2,421,381
13.	WILLIAM CAMERON BEAUMONT SMALL <THE WCB SMALL FAMILY A/C>	2,117,500
14.	CPU SHARE PLANS PTY LTD <PEP GEN CONTROL A/C>	1,920,500
15.	CRJ NO 71 PTY LIMITED <SAYWELL FAMILY A/C>	1,734,960
16.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,702,245
17.	SAUSALITO HK LIMITED	1,547,500
18.	CPU SHARE PLANS PTY LTD <PEP LLT CONTROL A/C>	1,361,883
19.	LEANNE LAWLER	1,085,000
20.	MARK NICHOLAS ATMORE	871,500
TOTAL		**165,828,280**

Distribution of Members and their holdings
The following table summarises the distribution of Pepper's listed shares as at 5 April 2017:

Range	Total holders	Units	% of issued capital
1 - 1,000	111	52,831	0.03
1,001 - 5,000	131	375,225	0.21
5,001 - 10,000	102	808,070	0.44
10,001 - 100,000	169	5,113,809	2.81
100,001 +	53	175,604,649	96.51
Rounding			**0.00**
Total	**566**	**181,954,584**	**100.00**

There were 26 shareholders holding less than a marketable parcel of shares based on a market price of $2.68 at the close of trading on 5 April 2017 and there were 11.1% of shareholders with registered addresses outside Australia.

Substantial Shareholdings
As at 5 April 2017 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
Mr Seumas Dawes	19-Sep-16	125,204,136	68.81%
CVI CVF II Lux Securities Trading SARL	5-Aug-15	10,952,500	6.05%
Perpetual Limited	29-Mar-16	22,458,367	12.40%

Corporate Directory

Directors

Mr Seumas Dawes
Chairman

Mr Michael Culhane
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 27, 177 Pacific Highway
North Sydney NSW 2090

(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


USA
MEXICO
BRASIL