peppermoney

Prospectus

Initial Public Offering of Ordinary Shares

Joint Global Co-ordinator,
Joint Bookrunner and
Joint Lead Manager

Credit Suisse

Goldman Sachs

Joint Bookrunner and
Joint Lead Manager

KKR

RBC Capital Markets

Financial Advisor

Reunion Capital Partners

Important information

Offer

The Offer contained in this Prospectus is an invitation for you to apply for fully paid ordinary shares (**Shares**) in Pepper Money Limited (ACN 094 317 665) (**Pepper Money** or **Company**). This Prospectus is issued by the Company. See Section 7 for further information on the Offer, including as to details of the securities that will be issued and transferred under this Prospectus.

Lodgement and listing

This Prospectus is dated 7 May 2021 and was lodged with ASIC on that date (**Prospectus Date**).

The Company will apply to the ASX within seven days after the Prospectus Date for admission of the Company to the Official List and quotation of the Shares on the ASX (**Listing**).

Neither ASIC nor the ASX takes any responsibility for the content of this Prospectus or for the merits of the investment to which this Prospectus relates.

Expiry date

No Shares will be issued or transferred on the basis of this Prospectus after the expiry date, being 13 months after the Prospectus Date.

Note to Applicants

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs (including financial and tax issues) of any prospective investor.

It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company. In particular, in considering the prospects of the Company, you should consider the risk factors that could affect the performance of the Company. You should carefully consider these risks in light of your investment objectives, financial situation and particular needs (including financial and tax issues) and seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest in the Shares. Some of the key risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

You should also consider the assumptions underlying the Forecast Financial Information set out in Section 4 and the risk factors set out in Section 5 that could affect the Company's business, financial condition and results of operations.

No person named in this Prospectus, nor any other person, guarantees the performance of the Company, the repayment of capital by the Company or the payment of a return on the Shares.

Exposure Period

The Corporations Act prohibits the Company from processing applications to subscribe for, or acquire, Shares offered under this Prospectus (**Applications**) in the seven-day period after lodgement of this Prospectus with ASIC (**Exposure Period**). This Exposure Period may be extended by ASIC by up to a further seven days.

The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act.

Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale or accurately represent the technical aspects of the products.

Disclaimer and forward-looking statements

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company, the Directors, the Joint Lead Managers (defined below) or any other person in connection with the Offer. You should rely only on information in this Prospectus when deciding whether to invest in Shares. Except as required by law, and only to the extent so required, neither the Company nor any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

This Prospectus contains forward-looking statements which are statements that may be identified by words such as "may", "will", "would", "should", "could", "believes", "estimates", "expects", "intends", "plans", "anticipates", "predicts", "outlook", "forecasts", "guidance" and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward-looking statements. These statements are based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions that, at the Prospectus Date, are expected to take place (including the key assumptions set out in Section 4).

No person who has made any forward-looking statements in this Prospectus (including the Company) has any intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, other than to the extent required by law.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the directors and management of the Company. Forward-looking statements should therefore be read in conjunction with, and are qualified by reference to, risk factors as set out in Section 5, the sensitivity analysis as set out in Section 4.9, and other information in this Prospectus. The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. As set out in Section 7, it is expected that the Shares will be quoted on the ASX initially on a deferred settlement basis. The Company, the Company's service provider, Boardroom Pty Limited (**Share Registry**), the Joint Lead Managers and Co-Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement.

Credit Suisse (Australia) Limited ("**Credit Suisse**") and Goldman Sachs Australia Pty Ltd ("**Goldman Sachs**") have been engaged by the Company to act as joint global co-ordinators, joint bookrunners and joint lead managers to the Offer and KKR Capital Markets LLC ("**KKCM**") and Royal Bank of Canada ("**RBC**") have been engaged by the Company to act as joint bookrunners and joint lead managers to the Offer (Credit Suisse, Goldman Sachs, KKCM and RBC together, the **Joint Lead Managers** and each a **Joint Lead Manager**). The Joint Lead Managers and the Co-Lead Manager have not authorised, permitted or caused the issue or lodgement, submission, dispatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by any Joint Lead Manager or Co-Lead Manager or by any of their respective affiliates or related bodies corporate (as defined in the Corporations Act) ("**Related Bodies Corporate**"), or any of their respective officers, directors, employees, partners, contractors, advisers or agents. To the maximum extent permitted by law, the Joint Lead Managers, Co-Lead Manager and their respective affiliates and Related Bodies Corporate, and any of their respective officers, directors, employees, partners, contractors, advisers or agents expressly disclaim all liabilities in respect of, make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

The Joint Lead Managers, Co-Lead Manager and their respective affiliates and Related Bodies Corporate and any of their respective officers, directors, employees, partners, contractors, advisers or agents are full service financial institutions engaged in various activities, which may include (without limitation) trading, financial advisory, provision of retail, business, private, commercial and investment banking, investment management, corporate finance, credit and derivative products, investment research, principal investment, hedging, market making, the provision of finance, including (without limitation) in respect of securities of, or loans to the Company its affiliates or persons directly or indirectly involved in the Offer or interests associated with such persons, brokerage and other financial and non-financial activities and services including for which they have received or may receive customary fees and expenses or other transaction consideration, and out of which conflicting interests or duties may arise. In the course of these activities, the Joint Lead Managers, Co-Lead Manager and their respective affiliates and Related Bodies Corporate and any of their respective officers, directors, employees, partners, contractors, advisers or agents may at any time for their own account and for the accounts of their clients make or hold investments in, or otherwise effect transactions in connection with, debt, equity or hybrid securities, senior loans or other financial products of the Company or its affiliates or any third party involved in the Offer, and may finance the acquisition of those securities and/or financial products and take or enforce security over those securities and/or financial products and receive customary fees and expenses or other transaction consideration in respect of such activities.

Neither the Joint Lead Managers, Co-Lead Manager nor their respective affiliates or Related Bodies Corporate, and/or their respective officers, directors, employees, partners, contractors, advisers or agents act as the adviser of or owe any fiduciary or other duties to any recipient of this (or any supplementary or replacement) Prospectus or any other person whatsoever in connection with the Shares and/or any related transaction (including, without limitation, in respect of the preparation and due execution of the transaction documents and the power, capacity or authorisation of any other party to enter into and execute the transaction documents). No reliance may be placed on the Joint Lead Managers, Co-Lead Manager or their respective affiliates or Related Bodies Corporate, and/or their respective officers, directors, employees, partners, contractors, advisers or agents for financial, legal, taxation, accounting or investment advice or recommendations of any sort.

In connection with the Offer, one or more investors may elect to acquire an economic interest in the Shares ("**Economic Interest**"), instead of subscribing for or acquiring the legal or beneficial interest in those shares. Any Joint Lead Manager (or its affiliates) may, for its own account, write derivative transactions with those investors relating to the Shares to provide the Economic Interest, or otherwise acquire shares in the Company in connection with the writing of such derivative transactions in the Offer and/or the secondary market. As a result of such transactions, any Joint Lead Manager (or its affiliates) may be allocated, subscribe for or acquire Shares (or other shares of the Company) in the Offer and/or the secondary market, including to hedge those derivative transactions, as well as hold long or short positions in such shares. These transactions may, together with other shares in the Company acquired by a Joint Lead Manager or its affiliates in connection with its ordinary course sales and trading, principal investing and other activities, result in the Underwriter or its affiliates disclosing a substantial holding and earning fees.

Statements of past performance

This Prospectus includes information regarding the past performance of the Company. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

Financial information presentation

All references to CY2018, CY2019, CY2020 appearing in this Prospectus are to the financial years ended or ending 31 December 2018, 31 December 2019 and 31 December 2020 respectively, unless otherwise indicated. All references to CY2021F appearing in this Prospectus are to the financial year ending 31 December 2021.

All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and sums and components in tables, figures and diagrams contained in this Prospectus are due to rounding.

Section 4 sets out in detail the Financial Information referred to in this Prospectus. The basis of preparation of the Financial Information is set out in Section 4.2.

The Historical Financial Information has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards (as adopted by the Australian Accounting Standards Board), which comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

This Prospectus includes Forecast Financial Information based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation for the Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

The Financial Information in this Prospectus should be read in conjunction with, and it is qualified by reference to, the information contained in Section 4 and Section 5.

Market and industry data based primarily on management estimates

This Prospectus (and in particular Section 2) contains data relating to the industries, sectors and channels in which the Company operates (**Industry Data**).

Unless otherwise stated, this information has been prepared by the Company using both publicly available data and internally generated data (including industry research and interviews with industry participants). The Company's internally generated data is based on estimates and assumptions that both the Directors and the Company's management believe to be reasonable, as at the Prospectus Date.

The Industry Data has not been independently prepared or verified and none of the Company, the Joint Lead Managers or Co-Lead Manager can assure you as to its accuracy or the accuracy of the underlying assumptions used to estimate such Industry Data. The Company's estimates involve risks and uncertainties and are subject to change based on various factors, including those described in the risk factors set out in Section 5.

Investors should note that market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions.

In addition to the Industry Data, this Prospectus uses third-party data, estimates and projections. There is no assurance that any of the third-party data, estimates or projections contained in this Prospectus will be achieved. The Company has not independently verified such information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those described in the risk factors set out in Section 5.

Investors should note that market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions.

Obtaining a copy of this Prospectus

This Prospectus is available in electronic form to Australian residents on the Company's offer website, www.peppermoneyoffer.com.au. The Offer constituted by this Prospectus in electronic form is available only to Australian residents accessing the website within Australia and is not available to persons in any other jurisdictions, including the United States.

A hard copy of the Prospectus is available free of charge during the Offer Period to any person in Australia by calling the Pepper Money Offer Information Line on 1300 420 250 (toll free within Australia) or +61 2 8023 5477 (outside Australia) from 8.30am and 5.00pm (Sydney time) Monday to Friday (excluding public holidays).

Applications for Shares may only be made on the Application Form attached to, or accompanying, this Prospectus in its hard copy form, or in its soft copy form available online at www.peppermoneyoffer.com.au, together with an electronic copy of this Prospectus. By making an Application, you declare that you were given access to the Prospectus, together with an Application Form.

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, this Prospectus in its paper copy form or the complete and unaltered electronic version of this Prospectus.

No cooling-off rights

Cooling-off rights do not apply to an investment in Shares pursuant to the Offer. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

No offering where illegal

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of the Shares in any jurisdiction outside Australia. The distribution of this Prospectus (including in electronic form) outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer to sell, or a solicitation of any offer to buy, securities in the United States. In particular, the Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (**U.S. Securities Act**) or the securities laws of any State of the United States, and may not be offered or sold, directly or indirectly, in the United States, except in transactions exempt from or not subject to the registration requirements of the U.S. Securities Act and any other applicable U.S. securities laws. The Offer is not being extended to any investor outside Australia, other than to certain Institutional Investors as part of the Institutional Offer.

See Section 9.15 for more detail on selling restrictions that apply to the Offer and sale of Shares in jurisdictions outside Australia.

Privacy

By completing an Application Form, you are providing personal information to the Company through the Share Registry, which is contracted by the Company to manage Applications. The Company, and the Share Registry on their behalf, and their agents and service providers may collect, hold, disclose and use that personal information to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration, and for other purposes related to your investment listed below.

If you do not provide the information requested in the Application Form, the Company and the Share Registry may not be able to process or accept your Application.

Once you become a Shareholder, the Corporations Act and Australian taxation legislation require information about you (including your name, address and details of the Shares you hold) to be included on the Share register. In accordance with the requirements of the Corporations Act, information on the Share register will be accessible by members of the public. The information must continue to be included on the Share register if you cease to be a Shareholder.

The Company and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including those listed below or as otherwise authorised under the *Privacy Act 1988* (Cth):

- the Share Registry for ongoing administration of the Share register;
- the Joint Lead Managers and Co-Lead Manager to assess your Application;
- printers and other companies for the purposes of preparation and distribution of documents and for handling mail;
- market research companies for the purpose of analysing the Company's shareholder base; and legal and accounting firms, auditors, management consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

The Company's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

You may request access to your personal information held by or on behalf of the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information.

You can request access to your personal information or obtain further information about the Company's privacy practices by contacting the Share Registry as follows:

Telephone:	(toll free within Australia)	1300 420 250
	(outside Australia)	+61 2 8023 5477
Address:	Level 12, Grosvenor Place 225 George Street Sydney NSW 2000	

The Company aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Company or the Share Registry if any of the details you have provided change.

Financial services guide

The provider of the Investigating Accountant's Report on the Financial Information is required to provide Australian retail clients with a Financial Services Guide in relation to that review under the Corporations Act. The Investigating Accountant's Report and accompanying Financial Services Guide is provided in Section 8.

Intellectual property

This Prospectus may contain trademarks of third parties, which are the property of their respective owners. Third-party trademarks used in this Prospectus belong to the relevant owners and use is not intended to represent sponsorship, approval or association by or with us.

Company website

Any references to documents included on the Company's website are provided for convenience only, and none of the documents or other information on the Company's website, or any other website referred in this Prospectus, is incorporated in this Prospectus by reference.

Defined terms and abbreviations

Defined terms and abbreviations used in this Prospectus, unless specified otherwise, have the meaning given in the glossary in Appendix B. Unless otherwise stated or implied, references to times in this Prospectus are to Sydney time.

Unless otherwise stated or implied, references to dates or years are calendar year references.

Questions

If you have any questions in relation to the Offer, contact the Pepper Money Offer Information Line on 1300 420 250 (toll free within Australia) or +61 2 8023 5477 (outside Australia) between 8.30am and 5.30pm (Sydney time) Monday to Friday (excluding public holidays).

This document is important and should be read in its entirety.

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Key Offer information

Key Offer statistics[1]	
Offer Price	$2.89
Total cash proceeds under the Offer ($ millions)[2]	500.1
Total number of New Shares to be issued to New Shareholders under the Offer (millions)[3]	173.2
Total number of Shares to be held by Pepper ANZ HoldCo at Completion of the Offer (millions)[4]	266.3
Total number of Shares on issue at Completion of the Offer[5] (millions)	439.5
Market capitalisation at the Offer Price[6] ($ millions)	1,270.2
Offer Price/Pro Forma consolidated CY2021 forecast NPAT per Share[7]	10.5x
Annualised pro forma forecast dividend yield for CY2021 at the Offer Price[8]	3.3%

1. The Forecast Financial Information set out in Section 4 has been prepared on the basis of the best estimate assumptions set out in Section 4.8 and should be read in conjunction with the discussion of the Financial Information in Section 4.7 (including the sensitivities set out in that section), and the risk factors set out in Section 5. There is no guarantee that the forecasts will be achieved.
2. Cash proceeds from the issue of New Shares at the Offer Price to New Shareholders. Excludes the impact of the issue of any New Shares to Pepper ANZ HoldCo in satisfaction of repayment of $41.6 million of the Shareholder Loan.
3. New Shareholders include Management Shareholders who subscribe for Shares under the Offer.
4. This includes Shares issued to Pepper ANZ HoldCo in satisfaction of the repayment of the $41.6 million of the Shareholder Loan.
5. Includes 181,304 Shares relating to the Employee Gift Offer expected to be issued under the Offer.
6. Calculated as the total number of Shares on issue following Completion of the Offer multiplied by the Offer Price. Shares may not trade at the Offer Price after Listing.
7. This ratio is commonly referred to as a price to earnings ratio (PE ratio). Please refer to Section 4 for further details in relation to the Pro Forma Financial Information.
8. Annualised CY2021 forecast dividend yield based on the midpoint of the target dividend payout ratio. Refer to Section 4.10 for further details. The payment of a dividend by Pepper Money is at the discretion of the Board and will be a function of a number of factors, including general business conditions, the operating results and financial condition of Pepper Money, future funding requirements including capital expenditure, compliance with debt facilities, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by Pepper Money, and any other factors the Board may consider relevant. No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend.

Key dates

Prospectus lodgement date	7 May 2021
Broker Firm Offer, Employee Gift Offer and Priority Offer open	17 May 2021
Broker Firm Offer, Employee Gift Offer and Priority Offer close and applications due	21 May 2021
Expected commencement of trading of Shares on ASX on a conditional and deferred settlement basis	25 May 2021
Settlement of the Offer	26 May 2021
Issue of Shares (Completion of the Offer)	27 May 2021
Commencement of trading on ASX on a normal settlement basis	27 May 2021
Expected despatch of holding statements	28 May 2021

Dates may change

The dates above are indicative only and may be subject to change without notice.

Pepper Money, in consultation with the Joint Lead Managers, reserve the right to vary any or all of these times and dates subject to the Corporations Act, the ASX Listing Rules and other applicable laws, including to close the Offer early, extend the Offer, defer the Closing Date, accept late Applications either generally or in particular cases, allot Shares at different times to investors, or withdraw the Offer, without prior notification. The quotation and commencement of trading of the Shares are subject to confirmation from ASX. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

Investors are encouraged to submit their Application Forms as early as possible after the Offer opens. Times stated throughout this Prospectus refer to the time in Sydney, Australia.

How to invest

Applications for Shares can only be made by completing and lodging an Application Form.

Instructions on how to apply for Shares are set out in Section 7.3.2 and on the back of the Application Form.

Questions

Please call the Pepper Money Offer Information Line on 1300 420 250 (inside Australia) or +61 2 8023 5477 (outside Australia) from 8.30am to 5.30pm Monday to Friday during the Offer Period. If you have any questions, contact your Broker. If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

Chair's letter

7 May 2021

Dear Investor,

On behalf of the Board of Directors, it gives me great pleasure to offer you the opportunity to become a Shareholder of Pepper Money Limited ("**Pepper Money**" or the "**Company**").

Pepper Money is one of Australia and New Zealand's leading non-bank lenders, with solutions spanning residential home loans, asset finance (secured by automobile and other similar collateral) small balance commercial real estate backed loans, as well as loan and broker servicing.

Our purpose is to help people succeed across our target customers that are underserved and undervalued by other industry players. Our success has been driven by investing in the right people across all areas of our business and creating the right environment to allow them to succeed. We recognise that great ideas and innovation are not the result of individual endeavours, instead it's a focus on outcomes for our customers and Distribution Partners that are delivered through exceptional teamwork.

Since writing its first loans in 2001, Pepper Money has originated over $32.3 billion loans[1] in Australia and New Zealand, and since 2014, has assisted more than 220,000 customers[2]. Over 20+ years, Pepper Money has invested strongly to build a scaled platform that benefits from a rich history of loans written or managed.

Data driven insights are central to what sets Pepper Money apart from its competitors. The deep insights collected from the 20+ years of customer and transactional data, alongside knowledge transfer from Pepper Global TopCo Limited (**Pepper Global TopCo**)'s operations in countries such as the UK and Ireland, and other external data sets, have allowed us to create the following competitive advantages:

- **Focus on underserved customer segments** – Pepper Money has leveraged its market intelligence to uncover and design products for underserved customer segments within existing and new asset classes;
- **Distribution** – Pepper Money utilises a multi-channel distribution platform with a focus on providing our distribution networks with a high level of support alongside technology solutions that deliver a strong level of customer service to distributors and the end customer;
- **Cascading Credit Model** – Pepper Money has developed a Cascading Credit Model which helps its distribution network offer the most suitable Pepper Money product to customers which leads to a higher probability of a successful application;
- **Credit expertise** – a 20-year track record of managing credit risk across Pepper Money originated and serviced loans is supported by a comprehensive risk management framework; and
- **Funding capabilities** – Pepper Money has a diversified funding strategy, leveraging relationships with over 100 different bank and international institutional investors, that allows us to lend to customers with confidence.

The success of the Pepper Money business is reflected in the strong growth achieved across its key metrics, including compound annual growth in total operating income – net of losses and net profit after tax ("**NPAT**") (Pro Forma) of 35.4% and 81.5%, CY2020 on CY2018.

The Board and Management expects Pepper Money to continue to grow in CY2021F, with total AUM[3] forecast to increase 11.5% to $16.8 billion, total operating income – net of losses forecast to increase to $332.7 million and NPAT (Pro Forma) forecast to increase 13.6% to $120.7 million.

Listing on the ASX will improve Pepper Money's financial flexibility to execute on its growth strategy and provide an opportunity for others to invest in Pepper Money. Immediately following listing, Pepper Global TopCo (through its wholly-owned subsidiary Pepper ANZ HoldCo) will own approximately 60.6% of the Company.

This Prospectus contains detailed information about the Offer, the industry Pepper Money operates in, Pepper Money's core competencies and its financial and operating performance, the outlook for Pepper Money and material risks associated with the industry and business in which Pepper Money operate. The key risks associated with investing in Pepper Money are detailed in Section 5. These include: Risks associated with funding facilities; Possible regulatory and legislative changes; Macroeconomic conditions and future impact from COVID-19; and Protection of information technology, data security and intellectual property. I encourage you to read the Prospectus carefully in its entirety before making your investment decision in connection with the Offer.

On behalf of my fellow Directors, I look forward to welcoming you as a Shareholder.

Yours sincerely,

Michael Culhane
Chair, Pepper Money

1. Cumulative 2001 to 31 December 2020.
2. Cumulative 2014 to 31 December 2020.
3. Lending and service (closing).

CEO's letter

7 May 2021

Dear Investor,

It is with great pleasure that I introduce you to Pepper Money and share with you our mission, our history and our strategy.

At Pepper Money, we have become one of Australia's leading non-bank lenders by focusing on our mission: to help people succeed. We do this by taking a real-life approach to lending and servicing those customers who have a home loan, car loan or small balance commercial loan with us. Core to our approach is putting the customer at the centre of everything we do. We use data-driven insights and expertise that offers real value to our customers and delivers results for our business.

Pepper Money was founded in 2000 to provide innovative home loan solutions to customers that were underserved by traditional lenders. Ever since, we have invested strongly in our people, distribution partners, customer solutions and technology platforms. We have leveraged market research, customer insights and through our experience and expertise have expanded our product offering, entered new markets and grown the number of customers helped, including:

- launching the Near Prime home loan segment in 2012, tactically positioning the product to complement our existing suite of non-conforming lending solutions;
- entering the Prime home loan space in 2014, after identifying benefits of having a product offering that spans across the credit risk spectrum;
- launching our Asset Finance division in 2014, following the banks decision to reduce appetite to lend in this segment resulting in increased demand; and
- entering the small balance commercial real estate in Australia and New Zealand residential home loan markets in 2019, given a significant opportunity to better serve these markets.

Our strategic success to date has been achieved by leveraging our core competencies and focusing on **four key pillars**:

Customer: We know that real life events can happen to anyone. We take a people-first approach and make business decisions in line with the expectations of our customers.

We recognise the importance of brokers and introducers in assisting customers to finance their ambitions. We will continue to invest heavily in education and develop distribution tools to expand our market position. Our strong investment in the Pepper Money brand continues to build awareness and value across key customer segments. We will embed and scale new products that cater to a larger cohort of customers.

Business: We will achieve business and customer growth through a high-performance operating infrastructure. Pepper Money was founded on innovation and will continue to develop its systems to be capable of meeting current and future demands.

People: People are at the heart of our business. One of our key objectives is to be an 'Employer of Choice'. Part of what makes that possible is a culture that is driven by truly living our core values: Can Do, Balanced and Real. We invest in the development of our employees, and actively share knowledge between teams, placing a strong emphasis on our risk management culture.

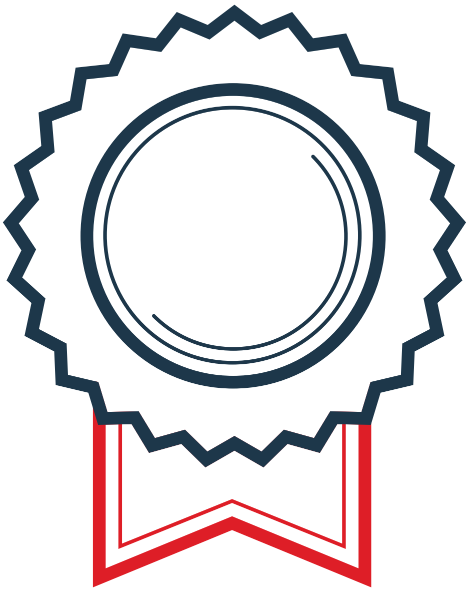
Brand: We recognise the importance of trust and market leadership. Every action we take supports a positive customer-focused culture to build trust in the brand.

I am excited about the opportunities ahead for Pepper Money and look forward to welcoming you as a Shareholder.

Yours sincerely,

Mario Rehayem
Chief Executive Officer, Pepper Money

Pepper Money at a Glance

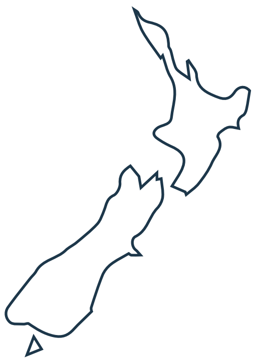


Pepper Money is one of Australia and New Zealand's largest non bank lenders and we live our mission of *helping people succeed.*

nz:

Pepper Money saw the opportunity to help underserved customers in New Zealand and started residential home loans in 2019.

- Customers who **fall outside the criteria** of the New Zealand subsidiaries of the Major Australian Banks
- **Prime and Near Prime** residential mortgages
- Focus on helping customers through **trusted Distribution Partners**



aus:

Pepper Money was founded in 2000 in Australia to provide innovative home loan solutions to customers that were underserved by traditional lenders.

Today in Australia, Pepper Money provides a number of solutions:

- **Home loans**: lending to Prime, Near Prime and Specialist customers
- **Commercial Real Estate loans**: lending to Prime and Near Prime commercial customers
- **Asset Finance**: lending to consumer and commercial customers for a range of asset types including cars, caravans, bikes and small equipment
- **Loan Servicing**: ongoing management and administration for loan portfolios owned by third parties

1 Investment overview

1.1 Introduction

Topic	Summary
What is Pepper Money's business?	Pepper Money is one of Australia and New Zealand's largest non-bank lenders, focused on underserved customer segments, and currently offers three broad categories of products including Mortgages, Asset Finance and Loan and Other Servicing. Pepper Money is a technology-enabled lender, with purpose-built data analytics and technology to inform credit decisioning, provide flexibility and drive performance across its business. Since 2014, Pepper Money has assisted more than 220,000 customers[1]. **For more information see Section 3.1.1**
What is Pepper Money's history?	Pepper Money was established in 2000 and commenced lending as a specialist residential home loan lender in the Australian market in March 2001, with a focus on providing innovative home loan solutions to customers that were being underserved by traditional lenders. Over time, Pepper Money has been offering increasingly higher credit quality home loans, launching its Near Prime residential mortgage product in 2012, and Prime in 2014. Pepper Money has broadened its product offering from residential home loans in Australia, commencing lending for Asset Finance in 2014, residential home loans in New Zealand and commercial real estate loans in Australia in 2019, and novated leases in 2020. Pepper Money is the Australian and New Zealand lending and servicing division of Pepper Global, which is a group of companies offering lending products and loan servicing in a number of countries in Europe, Asia and through Pepper Money in Australia and New Zealand. Pepper Money was listed on the ASX between 2015 and 2017. In December 2017, Pepper Money was delisted when a special purpose company, majority owned by funds advised by KKR acquired Pepper Money. Since that time, Pepper Money has achieved strong growth across a number of key operating metrics with total AUM[2], total operating income – net of losses and NPAT (Pro Forma) increasing at CAGRs of 10%, 35% and 82% respectively from CY2018 to CY2020. **For more information see Section 3.1.3**
Who are Pepper Money's customers? What products does Pepper Money offer its customers?	Pepper Money is focused on providing solutions for the underserved segments of the market: • **Mortgages** – **Australia home loans**: lending to Prime, Near Prime, and Specialist consumer customers – **New Zealand home loans**: lending to Prime, Near Prime, and Specialist consumer customers – **Australia CRE loans**: lending to Prime and Near Prime commercial customers • **Asset Finance**: lending to consumer and commercial customers for a range of asset types (including cars, caravans, motor bikes and boats) • **Loan and Other Servicing**: ongoing management and administration for loan portfolios owned by third parties (Non-Bank Lenders and ADIs). Underlying loans are predominantly residential mortgages and personal loans **For more information see Sections 3.4 and 2.2**

1. Cumulative 2014 to 31 December 2020.
2. Lending and servicing (closing).

Topic	Summary
What is Pepper Money's strategy?	Pepper Money aims to ***help people succeed*** by focusing on challenging the way loans are designed, distributed and offered in Australia and New Zealand. Pepper Money's in-house capabilities enables the business to offer digitally enhanced platforms that remove the complexity for customers and Distribution Partners, positioning Pepper Money as a lender that is easy to deal with, consistent in credit decisioning and focused on helping customers succeed. Pepper Money's growth strategy and medium-term growth outlook is structured on building sustainable AUM at an acceptable risk-adjusted return, supported by: • Ability to identify underserved segments in a large addressable market • Agility to respond to market conditions • Operation of a scalable platform • Investment in digital tools to drive distribution • Extension into new markets • Ability to adapt to industry trends • Strategic partnerships and transactions **For more information see Sections 3.1.2 and 3.10.2**
Where does Pepper Money operate?	Pepper Money offers residential mortgage, auto and equipment lending products, third-party loan servicing and small balance commercial real estate loans in Australia. In New Zealand, Pepper Money offers residential mortgages. **For more information see Sections 3.4.1 and 3.5.3**
How does Pepper Money generate its income?	Pepper Money's revenue is derived from the interest and fees earned by lending (Mortgage and Asset Finance) and, through fees earned on third-party Loan and Other Servicing. Pepper Money earns lending based revenue from customers paying interest and other fees. Pepper Money pays upfront (and in the case of Mortgages, ongoing trail) commissions to Distribution Partners for originating loans and interest expense on funding, and incurs losses when customers do not make their repayments and any security value is insufficient to make up any shortfalls. Mortgages account for 75% of CY2020 total operating income and Asset Finance accounts for 24% of total operating income, in each case net of losses. The residual 1% of total operating income was accounted for by Loan and Other Servicing. **For more information see Sections 3.3 and 4**

Topic	Summary
How does Pepper Money distribute its products?	Pepper Money originates through different channels across its solutions. Mortgages: • **Retail**: 17,000+ Accredited Distribution Partners managed through various aggregators; • **White Label**: 30+ third-party originators who distribute Pepper Money products under the third-party's brand; and • **Direct**: Direct to consumer origination, both online and sales assisted, through a combination of brand marketing and strategic partnerships (1.5 million website visitors during CY2020). Asset Finance: • **Auto Brokers**: Brokers who provide an online finance solution; • **Commercial Brokers**: small to medium enterprise brokers, typically focusing on equipment finance solutions; • **Car Dealers**: Typically large used car dealer operations who provide financing options at the point of sale; and • **Mortgage Brokers**: who arrange car loans alongside mortgages. Loan and Other Servicing: • Pepper Money originated loans that are sold as part of Pepper Money's Whole Loan Sales program; and • Fees earned on broker administration services which commenced in Q4 CY2020. **For more information see Sections 3.5.1 and 3.5.3**
How does Pepper Money leverage its technological capabilities?	Pepper Money's core capabilities revolve around its ability to capture and analyse data, and to leverage this data in: • **identifying** underserved customer segments; • development of its **credit decision engine**; • supporting and strengthening its **distribution network** with Distribution Partner and customer experiences; and • enabling a sophisticated and diversified **funding** model with the ability to execute a variety of transaction types to capture funder demand. Pepper Money has developed two key purpose-built technology systems: **Pepper Product Selector™**: asks between 14 and 25 simple questions about a potential customer and their loan scenario. Within typically two to five minutes[3], the digital tool accesses the customer's credit information, conducts a product suitability assessment and presents the relevant Distribution Partner with a best-fit Pepper Money loan solution tailored to the customer's circumstances. **Pepper Resolve™ (PR)**: solution designed to automatically provide Distribution Partners with an alternative loan solution for their customers, where the customer has been or is otherwise likely to be declined by their first-choice lender. Pepper Resolve™ utilises APIs to integrate with the Customer Relationship Management systems of a Distribution Partners' Aggregator and, similar to Pepper Product Selector™, provide a best-fit Pepper Money loan solution tailored to the customers' circumstances. **For more information see Sections 3.2.1.1 and 3.5.2**

3. Of the original 14 questions, certain key questions may generate additional follow-on questions taking total questions to no more than 25. The time taken reflects typical time for a Distribution Partner to answer questions, but that once broker process is complete the answer is instantaneous.

Topic	Summary
How does Pepper Money assess credit risk?	Pepper Money uses data collected from its 20+ years of operations, qualitative research and data from its partnership with credit bureaus to better understand its customer base. Pepper Money uses its historical credit performance analysis and data to implement its credit management and decisioning processes. A decision engine is embedded within Pepper Money's loan origination workflow. **For more information see Sections 3.2.1 and 3.7**
How does Pepper Money fund its business operations?	Pepper Money's debt funding strategy is structured to provide ongoing, efficient funding for the business to support growth and to manage through periods of market disruption. As one of Australia's largest and most experienced Non-Bank Lenders, Pepper Money has deep funding expertise spanning 20 years of originating loans and 18 years of accessing global capital markets. It has continued to broaden its funding base over time, and is currently funded with: • **Warehouse Facilities**: limited recourse Funding Vehicles provided by funding partners that finance the origination or purchase of new loan assets; • **Public Term Securitisations**: limited recourse Funding Vehicles provided by investors in public wholesale capital markets; • **Private Term Securitisations**: similar to Public Term Securitisations, but with funds from a single investor or a small number of investors; • **Whole Loan Sales**: sale of pools of loan assets to an unrelated buyer at an agreed price; and • **Cash Resources, including cash funded via Pepper Money's Corporate Debt Facility**: used to fund Pepper Money's investment in Junior Securities. **For more information see Section 3.6**
Why is the Offer being conducted?	The purpose of the Offer is to: • raise capital to partially repay the Company's Bridge Facility and partially repay an existing Shareholder Loan and strengthen Pepper Money's balance sheet; • provide the Company with access to equity capital markets, which it expects will give it added financial flexibility to pursue further growth opportunities; • provide an opportunity for institutional and retail investors to become Shareholders in the Company; • provide the Company with the benefits of an increased profile that arises from being a listed entity; and • assist the Company in attracting and retaining quality staff. **For more information see Section 7.1.2**

1.2 Key financial metrics

Topic	Summary
What is Pepper Money's historical and forecast financial performance?[4]	A selected summary of Pepper Money's Pro Forma Financial Information and Forecast Financial Information is set out below. Investors should read this information in conjunction with the more detailed discussion of the Financial Information set out in Section 4, including the assumptions, management discussion and analysis and sensitivity analysis as well as the key risks set out in Section 5.

		Pepper Money Pro Forma Financial Information (Note 1)			Pepper Money Pro Forma Forecast Financial Information (Note 1)
A$ million	**Notes**	**CY2018**	**CY2019**	**CY2020**	**CY2021F**
Interest income	2	549.9	714.4	705.9	692.3
Interest expense	3	(357.7)	(445.7)	(353.7)	(336.0)
Net interest income		**192.2**	**268.6**	**352.2**	**356.3**
Total operating income	4	**173.9**	**248.9**	**318.9**	**332.7**
EBITDA	5	**63.3**	**116.2**	**180.6**	**197.9**
Net profit from continuing operations		**32.2**	**63.7**	**106.3**	**120.7**

Notes:

1. The Pepper Money Pro Forma Financial Information and the Pepper Money Pro Forma Forecast Financial Information, and the Pepper Money Financial Information and Pepper Money Forecast Financial Information included in this Prospectus have been prepared on the basis described in Section 4.2 of this Prospectus. The Pepper Money Pro Forma Forecast Financial Information varies from the Pepper Money Forecast Financial Information as explained in the reconciliation tables in Sections 4.3.1 and 4.6.2.
2. Interest income: includes interest revenue, Mortgage Risk Fees (**MRF**)/Loan Protection Fees (**LPF**) associated with loan settlements, loan premium revenue and early termination interest adjustments payable upon early redemption. Loan acquisition costs such as upfront Distribution Partner commissions paid are spread across the expected life of the loans. Interest income is recognised using the Effective Interest Rate (**EIR**).
3. Interest expense: the interest payable in respect of Warehouse Facilities and Term Securitisations (collectively referred to as "**asset funding**") and facility and establishment costs. Interest expense is recognised using the EIR.
4. Total operating income includes net interest income, lending fee income net of lending expenses, whole loan sales (net premium), loan losses and servicing fees and other income.
5. EBITDA is the net profit/(loss) before interest on Corporate Debt, interest on the lease liability recognised under AASB 16, income tax expense, depreciation (including the right of use asset recognised under AASB 16) and amortisation.

For more information see Section 4

4. The Forecast Financial Information set out in Section 4.3 has been prepared on the basis of the best estimate assumptions set out in Section 4.2.4 and should be read in conjunction with the discussion of the Financial Information in Section 4 (including the sensitivities set out in that section), and the risk factors set out in Section 5. There is no guarantee that the forecasts will be achieved. A reconciliation between the statutory forecast and the Pro Forma forecast is set out in Appendix A.

Topic	Summary
What is Pepper Money's dividend policy?	Subject to future business conditions, available profits and franking credits and the financial position of Pepper Money, it is the current intention of the Board to pay dividends. It is the Board's current intention to target a payout ratio of between 30% and 40% of NPAT, however the actual payout ratio may vary between periods depending on the factors outlined above. No assurances can be given by any person, including the Directors, about the payment of dividends and the level of franking on such dividends. Please read the Forecast Financial Information as set out in Section 4 and the risk factors as set out in Section 5. For more information see Section 4.10

1.3 Key investment highlights

Topic	Summary
A leader in non-bank finance with an established and proven track record through-the-cycle	• Pepper Money is one of the largest Non-Bank Lenders in the Australian and New Zealand Mortgage and Asset Finance markets. • Since commencing its operations in 2000, Pepper Money has helped more than 220,000[5] customers with $32.3 billion of new loans[6]. • Through its mission to help people succeed, Pepper Money has delivered a track record of profitable growth, as evidenced by strong levels of AUM, total operating income – net of losses and NPAT (Pro Forma) CAGR of 10%, 35% and 82%, respectively, from CY2018 to CY2020. For more information see Section 3.10.1
Strong growth record and underlying momentum in a $2 trillion total addressable lending market	• Pepper Money has a market share of ~0.5%[7] of the $2,160 billion Australian and New Zealand mortgage market and a market share of ~5.1%[8] of the $52 billion Australian motor vehicle and equipment finance market. • Pepper Money considers it has significant headroom to grow within its core markets, deploying a strategy to target underserved and undervalued customer segments to deliver profitable growth. For more information see Section 2
20+ years of historical data provides insights from which the business has grown	• Pepper Money's core capabilities revolve around its ability to capture and analyse data it has generated from its 20+ years of customer and transactional history. • Pepper Money leverages this data to identify underserved customers, developing technology to support its Distribution Partners in the efficient distribution of its solutions and apply optimal risk-based pricing to its products. For more information see Section 3.2

5. Cumulative 2014 to 31 December 2020.
6. As at 31 December 2020.
7. Estimated market share based on AUM. Mortgages excludes CRE. Asset Finance industry market size includes consumer motor and equipment financing only; commercial data not publicly available.
8. Represents Pepper Money's Asset Finance AUM as a proportion of consumer motor and equipment financing only; commercial not publicly available.

Topic	Summary
Digitally-enabled distribution tools, allowing brokers to help people succeed with confidence	• Pepper Money has developed in-house, purpose-built technology systems and capabilities designed to help Distribution Partners to convert more applications and provide more customers with a Pepper Money solution. • Pepper Money has implemented two key purpose built technology systems to support its Mortgages distribution: Pepper Product Selection in April 2017 and Pepper Resolve in March 2018. **For more information see Section 3.5.2**
Strong through-the-cycle credit performance, underpinned by a robust risk framework and 20+ years of loan performance data that drives disciplined returns	• Pepper Money has a strong, established credit risk analysis framework that allows a consistent credit assessment process for each customer. • Pepper Money leverages its data and system-driven analytics capabilities to efficiently monitor portfolio performance and inform its decisions on credit risk. • The arrears profile of Pepper Money originated loans shows its culture of strong risk assessment and management. Embedded business practices position Pepper Money well to adjust originations and collections to prevailing market conditions. **For more information see Section 3.7**
Robust funding, significant warehouse capacity provided by 15+ financiers across a global investor base of 100+ investors	• Pepper Money uses a range of different funding sources to engage with a broad range of investors and funding providers. • Pepper Money's funding is structured to deliver ongoing and efficient funding to support the business to grow and to manage through periods of market disruption. **For more information see Section 3.6**
Clear path for continued organic growth through extension of products, asset classes and geographies	• Pepper Money's growth strategy and medium-term growth outlook is structured on building sustainable AUM at an acceptable risk-adjusted return. • Pepper Money's growth strategy pillars include: – Ability to identify underserved segments in a large addressable market; – Agility to respond to market conditions; – Scalable platform; – Investment in digital tools to drive distribution; – Extension into new markets; – Adapting to industry trends; and – M&A and strategic partnerships. **For more information see Section 3.10.2**
Strong, experienced, tenured management team with proven record of success	• Pepper Money has a dedicated, focused executive team with strong experience and a proven track record both at Pepper Money and externally, to continue to grow and drive the business. **For more information see Section 6.1.3**

1.4 Key risks

Topic	Summary
Overview	Any investment in Pepper Money is subject to risk factors that are specific to an investment in the Company and also to others that are of a more general nature including general risks associated with investing in Shares. These risks are further described within Section 5 and should be reviewed in their entirety. Selected specific risks are summarised in the table below. **For more information see Section 5.1**
COVID-19 Pandemic	COVID-19 is an ongoing significant concern globally. Despite the recent commencement of the roll-out of vaccines, the pandemic continues to create volatility in financial markets and impact on economic activity worldwide. State and Federal Governments in Australia and New Zealand announced economic support and stimulus packages aimed at reducing the extent of the economic impact of COVID-19. The extent to which these packages may mitigate and/or defer the economic impact, including any credit losses Pepper Money may incur, is uncertain. There is also a risk that these packages will create longer-term risks to the economy. This may also negatively impact customer sentiment towards Pepper Money and the financial services sector more broadly. There is a risk, as a result of the COVID-19 pandemic, that Pepper Money could experience increased levels of borrower default and bad debts, a reduction in the demand for Pepper Money's products and services, a reduction in interest and fee income, a reduction in cash flow or a reduction or loss of access to funding or an increase in the cost of funding. **For more information see Section 5.2.1**
Risks associated with funding facilities	Pepper Money's funding platform currently comprises a mix of Warehouse Facilities, Term Securitisations, a program of Whole Loan Sales, the Corporate Debt Facility and balance sheet cash. Pepper Money depends on continued access to these funding sources to fund its new originations and existing lending in Mortgage and Asset Finance receivables, as well as to support its ongoing business operations. A loss of or adverse impact on one or more of Pepper Money's funding sources, without access to alternate funding sources, could have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth, and/or the value of its Shares. **For more information see Section 5.2.2**
Regulatory and licence compliance	Pepper ANZ operates within regulated markets that are subject to a range of legislative and compliance requirements. In both Australia and New Zealand (noting that Australia represents the substantial majority of Pepper ANZ's operations), Pepper ANZ must comply with statutory obligations in relation to, among other things, licensing, responsible lending, anti-money laundering, counter terrorism financing, privacy, customer identification, credit reporting, unfair contract terms and disclosures to customers and investors. While Pepper Money keeps abreast of potential and actual changes to the legislative and regulatory environment, Pepper Money cannot predict with certainty the legislative or regulatory changes that may occur in the future. It is equally difficult to predict the impact of future legislative or regulatory change on Pepper Money's business, particularly in circumstances where the financial services industry is under increased scrutiny following the Financial Services Royal Commission in Australia and similarly focused inquiries in New Zealand. **For more information see Section 5.2.3**

Topic	Summary
Macroeconomic conditions	Macroeconomic factors such as unemployment, underemployment, interest rates, lack of income growth, the amount of customer spending, business investment, government spending, government policy, the volatility and strength of the global and Australian and New Zealand capital markets, currency value, exchange rates and information (particularly of essential items) all affect the business and economic environment and, ultimately, the volume and performance of Pepper Money's business. Given the majority of Pepper Money's business is in Australia, it is particularly exposed to changes in Australian macroeconomic conditions. A material downturn in the Australian economy, sustained increases in inflation or shocks to the financial system could result in a material increase in unemployment, a return to higher interest rates, a general reduction in demand for credit at a domestic or international level or a reduction in a borrower's ability to pay their debts. **For more information see Section 5.2.4**
A downturn in the Australian and New Zealand housing and asset finance markets	A material deterioration in the Australian and/or New Zealand housing and/or Asset Finance markets which could be triggered by various factors including reduced borrower sentiment, tightening in lending standards, rising interest rates, depressed asset values, rising unemployment and increased repayments for interest only loans and changes to government policy would have a material negative impact on Pepper Money's business. **For more information see Section 5.2.5**
Customer default and portfolio performance	Pepper Money is exposed to the risk that its customers do not meet their financial obligations (e.g. their obligation to repay loans) or become insolvent. Customers default is mostly caused by a decrease in the customer's available income or an increase in the customer's payment obligations or living expenses (including increased interest rates). Customer defaults may also increase as a result of adverse business or economic conditions. A change in circumstance or a failure by Pepper Money to adequately assess and manage credit risk may result in credit losses, decreased operating cash flows, significant credit impairment expenses, increased funding costs and reduced access to funding. **For more information see Section 5.2.6**
Imprecise prediction of the rate of prepayment of loans	There is a risk that the conditional prepayment rate (CPR) of Pepper Money's existing loan portfolio increases as a result of lower interest rates, increased competition in the lending market, increased willingness of Prime lenders to accept higher credit risk and improvements in borrower credit ratings. As Pepper Money's income forecasts are dependent on accurately estimating the CPR, there is a risk that the CPR is higher than Management forecasts which, if not offset by additional originations, could adversely impact Pepper Money's profitability. **For more information see Section 5.2.7**
Reliance on data models	Pepper Money relies extensively on models in managing many aspects of its business, including stress testing, forecasting, cash flow, customer selection, credit and other risk management, pricing and collections management. Models may prove in practice to be less predictive than Pepper Money expects for a variety of reasons. An aggregation of wrong or sub-optimal decisions (in particular if it is resulting from a systemic inaccuracy or misinterpretation of the data model) could have a significant impact on Pepper Money's performance in the medium term. **For more information see Section 5.2.8**

Topic	Summary
Information technology and data security	Any systemic failure or sustained disruption to the effective operation of Pepper Money's technology platform or other events resulting from system failure, cyber-attacks and viruses could severely damage Pepper Money's reputation and its ability to generate or retain business, directly impair operations and customer service levels or require increased expenditure on technology or generally across the business. In addition, Pepper Money's operations are dependent on access to third party technology and data providers to make informed, accurate and timely assessments of potential applicants. If disruption was to occur, Pepper Money could face significant costs and/or business disruption. **For more information see Section 5.2.9**
Protection of intellectual property	Pepper Money has developed technology-enabled methods and capabilities to support its mortgage distribution, including for example Pepper Resolve, the Pepper Product Selector and the Cascading Credit Model. The commercial value of Pepper Money's intellectual property is dependent in part on operational procedures to maintain confidentiality and legal protections provided by a combination of copyright, trade secrecy laws, confidentiality obligations on employees and third parties and other intellectual property rights. Any such breaches could result in an inability to use the intellectual property in question, erode Pepper Money's competitive position and involve significant expense. **For more information see Section 5.2.10**
Other key risks	The above risks are a summary of some of the key risks associated with an investment in Pepper Money, but they are not an exhaustive list of all the key risks that may affect Pepper Money or be associated with an investment in Shares. A number of other risks relating specifically to an investment in Pepper Money and generally to an investment in the Shares are included in Section 5, and investors should review all of these risks carefully before making an investment decision. **For more information see Section 5**

1.5 Key individuals, interests and benefits

Topic	Summary
Who are the Directors of Pepper Money?	**Directors** The Board comprises of Directors of the Company, being: • Michael Culhane (Chairman and Shareholder Representative Director) • Mario Rehayem (Chief Executive Officer) • Des O'Shea (Non-Executive Director and Shareholder Representative Director) • Mike Cutter (Independent Non-Executive Director) • Akiko Jackson (Independent Non-Executive Director) • Justine Turnbull (Independent Non-Executive Director) • Rob Verlander (Independent Non-Executive Director) The Company's Board is responsible for the overall strategic direction of Pepper Money. **For more information see Section 6.1.1**
Who are the key executives of Pepper Money?	**Key Executives** Pepper Money's senior management team consists of: • Mario Rehayem (Chief Executive Officer) • Therese McGrath (Chief Financial Officer) • Sue Kent (Chief Human Resources Officer) • Aaron Milburn (General Manager, Mortgages and Commercial Lending) • Anthony Moir (Treasurer) • Ken Spellacy (General Manager, Asset Finance) • Matthew Tinker (General Manager, Operations) • Michael Vainauskas (Chief Risk Officer) • John Williams (General Counsel and Company Secretary) **For more information see Section 6.1.3**

Topic	Summary
Who are the Shareholders and what will their interest in Pepper Money be at Completion of the Offer?	As at Prospectus Date, Pepper Money is 100% owned by Pepper ANZ HoldCo. Pepper ANZ HoldCo is an indirectly wholly-owned subsidiary of Pepper Global TopCo and will continue to be following Completion of the Offer. As at the Prospectus Date, Pepper Global TopCo is owned 64.94% by KKR, 27.18% by Minority Investors,[9] 7.05% by members of Pepper Global Management or their related parties[10] and 0.83% by members of Management or their related parties. At Completion, the members of Management that hold TopCo Shares will have the opportunity to have all or a portion of their TopCo Shares bought back, on the basis that an amount equal to the funds received from the buy-back, are used to subscribe for Shares under the Management Offer. Consequently, following Completion of the Offer (and taking into account a simultaneous buy-back of certain TopCo Shares not related to Management), Pepper Global TopCo will be owned 65.60% by KKR, 27.26% by Minority Investors and 7.14% by members of Pepper Global Management or their related parties. The shareholdings of Pepper ANZ HoldCo and Management Shareholders on Completion are expected as follows:

	Notes	Shareholding prior to Completion of the Offer (Shares) (m) and (%)	Shareholding following Completion of the Offer (Shares) (m) and (%)
Pepper ANZ HoldCo		251.9/100%	266.3/60.59%
Management Shareholders	1	Nil/0.00%	4.6/1.05%
New Shareholders	2	**Nil/0.00%**	**168.6/38.37%**
Total		**251.9/0.00%**	**439.5/100%**

1. *This represents the Shares issued to Management Shareholders in connection with the TopCo Buy-Back under the Management Offer.*
2. *This does not include Shares issued to Management Shareholders in connection with the TopCo Buy-Back under the Management Offer.*

The above table does not include any Shares which may be acquired as part of the Offer by a certain number of Non-Executive Directors and members of Management who have indicated that they (either directly or via closely related parties) currently intend to acquire additional Shares as part of the Offer including the following Directors: Des O'Shea (Non Executive Director and Shareholder Representative), Mike Cutter, Akiko Jackson, Justine Turnbull and Rob Verlander. Based on these indications these Non-Executive Directors and members of Management have expressed an interest in acquiring in aggregate up to approximately 551,240 Shares in the Offer. The Company and Joint Lead Managers have absolute discretion regarding allocations of Shares under the Offer (refer to Sections 7.3.5, 7.4.2 and 7.6).

For more information see Section 7.1.6

What significant benefits and interests are payable to Directors and other persons connected with Pepper Money as a result of the Offer and what significant interests do they hold?

Key People	Interest or benefit
Non-Executive Directors	Ownership of Shares Directors' fees (including options)
Management Shareholders	Ownership of Shares Remuneration
Other members of Management	Remuneration
Advisers and other service providers	Fees for services

For more information see Section 6.2

9. Minority Investors include Director Des O'Shea who holds approximately 0.18% of the TopCo Shares and also Seumas Dawes who holds ~22% of the TopCo Shares through a controlled entity.
10. Pepper Global Management includes Director Michael Culhane and his associated entities who hold approximately 3.60% of the TopCo Shares.

Topic	Summary
Controlling interests in Pepper Money	Following Completion of the Offer, Pepper Global TopCo will hold Escrowed Shares constituting 60.6% of the Shares on issue. These Shares will be held via a wholly owned subsidiary of Pepper Global TopCo, Pepper ANZ HoldCo. **For more information see Section 7.17**
Will any Shares be subject to restrictions on disposal following Completion of the Offer?	All of the Escrowed Shares held at Completion by the Escrowed Shareholders will be subject to disposal restrictions as follows: • (**Pepper ANZ HoldCo**) All Escrowed Shares held by Pepper ANZ HoldCo at Completion of the Offer will be subject to the voluntary escrow restrictions until the trading day after Pepper Money's audited full year results for the period ending 31 December 2021 are released to ASX; and • (**Management Shareholders**) All Escrowed Shares held by Management Shareholders at Completion of the Offer will be subject to the voluntary escrow restrictions until the trading day after Pepper Money's audited full year results for the period ending 31 December 2021 are released to ASX. **For more information see Section 7.8**

1.6 Key Offer statistics

Topic	Summary
What are the key Offer statistics?	

Offer price	$2.89
Total cash proceeds under the Offer ($ millions)	500.1
Total number of New Shares to be issued to New Shareholders under the Offer (millions)[2]	173.2
Total number of Shares to be held by Pepper ANZ HoldCo at Completion of the Offer (millions)[1]	266.3
Total number of Shares on issue at Completion of the Offer (millions)	439.5
Market capitalisation at the Offer Price ($ millions)	1,270.2
Offer Price/Pro Forma consolidated CY2021 forecast NPAT per Share	10.5x
Annualised pro forma forecast dividend yield for CY2021 at the Offer Price	3.3%

Notes:
1. *This does not include New Shares to be issued to Pepper ANZ HoldCo in satisfaction of part repayment of the Shareholder Loan.*
2. *New Shareholders includes Management Shareholders who participate in the Management Offer.*

For more information see Section 7

1.7 Proposed use of funds and key terms and conditions of the Offer

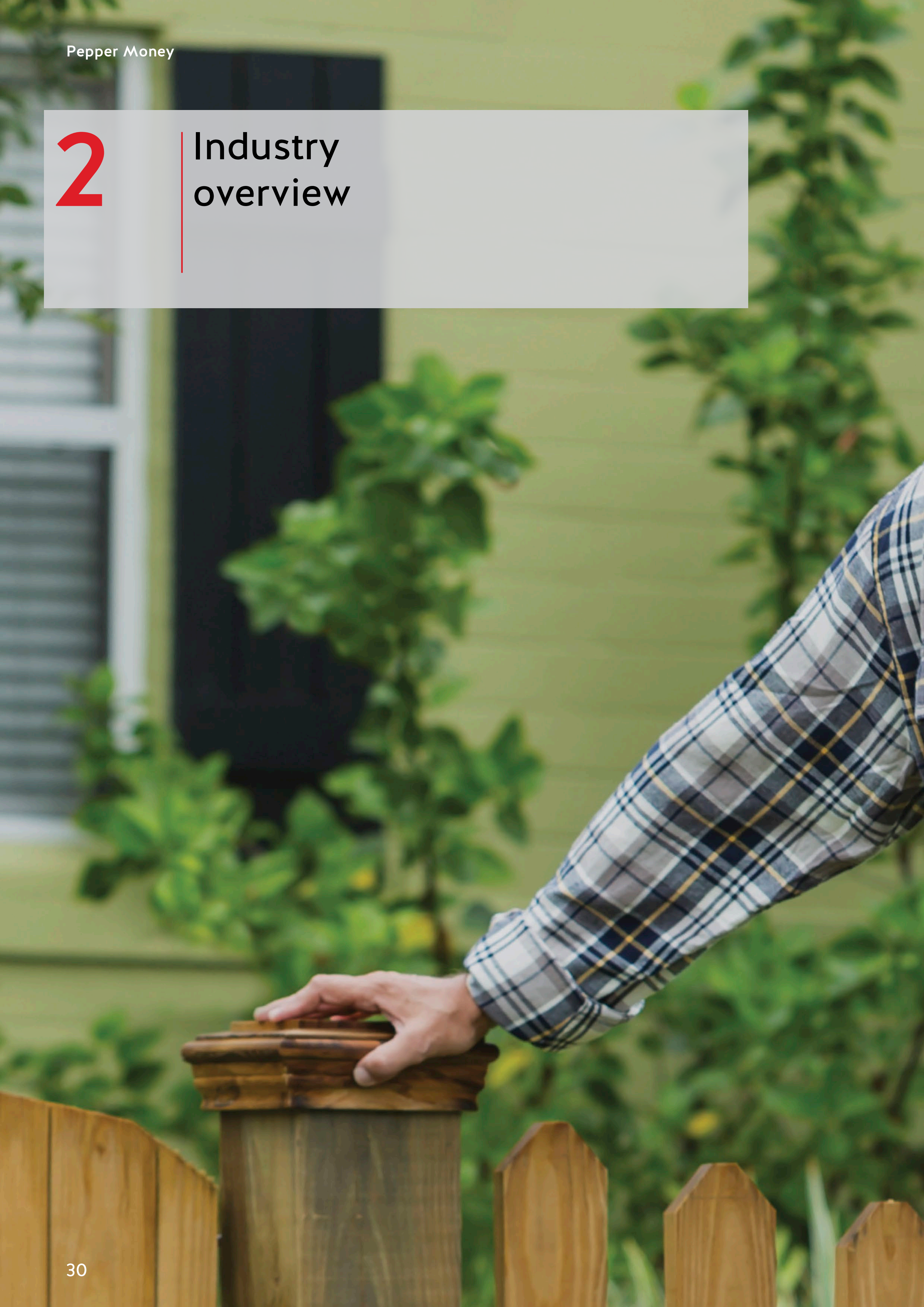
Topic	Summary
Who is the issuer of the Prospectus?	Pepper Money Limited (ACN 094 317 665), a company registered in Australia. **For more information see Important Notices**
What is the Offer?	The Offer is an Initial Public Offering of 173.2 million New Shares by the Company at an Offer Price of $2.89 per Share. The total number of Shares on issue at Completion of the Offer will be 439.5 million and all Shares will rank equally with each other. The Shares offered under this Prospectus will represent approximately 39.4% of the Shares on issue on Completion of the Offer. At the Offer Price, the Offer will raise $500.1 million of total cash proceeds. The Offer of Shares to Eligible Employees under the Employee Gift Offer is also made under this Prospectus. **For more information see Section 7.1**
What is the proposed use of funds raised pursuant to the Offer?	The funds received under the Offer will be used as follows: • $474.7 million will be used by the Company to partially repay the Bridge Facility and partially repay the existing Shareholder Loan; and • $25.4 million will be used to pay the Offer costs. **For more information see Section 7.1.3**
Where will the Shares be listed?	Pepper Money has applied to ASX for admission to the Official List of, and quotation of its Shares by, ASX under the code "PPM". It is anticipated that quotation will initially be on a conditional and deferred settlement basis. Completion of the Offer is conditional on ASX approving that application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act. **For more information see Section 7.12**
How is the Offer structured?	The Offer comprises: • The Broker Firm Offer, which is open only to Australian resident investors who are not Institutional Investors and who receive a firm allocation of Shares from their Broker; • The Institutional Offer, which consists of an invitation to acquire Shares made to Institutional Investors in Australia, and a number of other eligible jurisdictions; • The Employee Gift Offer, which is open only to Eligible Employees; and • The Priority Offer, which is open to selected investors as agreed between Pepper Money and the Joint Lead Managers. The Management Offer, which is open to the Management Shareholders, is also made under this Prospectus.[11] **For more information see Section 7.1.1**
Is the Offer underwritten?	Yes. The Offer (with the exception of the Employee Gift Offer, Shares issued to Management and Shares issued to Pepper ANZ HoldCo) is fully underwritten by the Joint Lead Managers. **For more information see Section 7.1.1**

11. Management Shares are not part of the Offer but are Shares that will be issued pursuant to this Prospectus, as set out in Section 6.4.

Topic	Summary
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, the Institutional Offer and Priority Offer will be determined by the Joint Lead Managers in agreement with Pepper Money, having regard to the allocation policy outlined in Sections 7.3.5, 7.4.2 and 7.6. With respect to the Broker Firm Offer, it will be a matter for the Co-Lead Manager and Co-Managers how they allocate firm stock among their eligible retail clients. With respect to the Employee Gift Offer, Eligible Employees will be offered the opportunity to apply for up to $1,000 worth of Shares at no cost. The allocation of Shares under the Employee Gift Offer is guaranteed to Eligible Employees. With respect to the Management Offer, Management Shareholders will be offered the opportunity to apply for a certain number of Shares which reflects the value of the funds they receive under the TopCo Buy-Back. The allocation of Shares under the Management Offer is guaranteed to Management Shareholders. **For more information see Sections 7.3.5, 7.4.2 and 7.6.**
Is there any brokerage commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. **For more information see Section 7.2**
What are the tax implications of investing in Shares?	Shareholders may be subject to Australian income tax or withholding tax on any future dividends paid. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances, particularly for non-resident Shareholders. Applicants should obtain their own tax advice prior to deciding whether to invest. **For more information see Section 9.11**
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or about Friday, 28 May 2021. Applicants can also check their allocations on and from the day of Listing in the manner outlined in Sections 7.3.5, 7.4.2 and 7.6. **For more information see Sections 7.3.5, 7.4.2 and 7.6**
What is the minimum and maximum Application size under the Offer?	The minimum Application under Offer (other than the Employee Gift Offer), is $2,000 worth of Shares. There is no maximum value of Shares that may be applied for under the Offer (other than the Employee Gift Offer). Under the Employee Gift Offer, Eligible Employees will be offered the opportunity to apply for up to $1,000 worth of Shares at no cost. **For more information see Section 7.2**

Topic	Summary
How can I apply?	If you are an eligible investor who has received an invitation to apply for Shares under the Broker Firm Offer and the Employee Gift Offer you may apply for Shares by completing a valid Application Form. A separate offer letter, together with this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Gift Offer. Applicants under the Priority Offer may only apply for Shares online at www.peppermoneyoffer.com.au using the online Application Form and paying Application Monies via BPAY® (no physical Application Form is needed when paying in this manner) or otherwise as agreed between Pepper Money and the Joint Lead Managers. There are instructions set out on the online Application Form to help you complete it. To the maximum extent permitted by law, an application under the Offer is irrevocable. **For more information see Sections 7.3.2, 7.5.2 and 7.7.2**
Can the Offer be withdrawn?	Pepper Money reserves the right not to proceed with the Offer at any time before the issue of Shares to Successful Applicants. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest). **For more information see Section 7.2**
Where can I find more information about this Prospectus or the Offer?	Please call the Pepper Money Offer Information Line on 1300 420 250 (inside Australia) or +61 2 8023 5477 (outside Australia) from 8.30am until 5.30pm Monday to Friday during the Offer Period. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest. **For more information see Section 7.2**

2 Industry overview



2.1 Introduction

Pepper Money is one of Australia and New Zealand's largest Non-Bank Lenders, focused on underserved customer segments, and it currently offers three broad categories of products:

- **Mortgages:** predominantly finances residential home loans;
- **Asset Finance:** finances a range of asset types for consumer and commercial customers, primarily used cars; and
- **Loan and Other Servicing:** independent loan servicing predominantly for residential mortgages and personal loans.

From originating loans in the Australian Mortgage and Asset Finance markets, the business expanded into the New Zealand Mortgage market and Australian Commercial Real Estate loan market in the latter half of CY2019. Table 1 outlines the industry segments targeted by Pepper Money's three products: Mortgages, Asset Finance and Loan and Other Servicing.

Table 1: Pepper Money industry segments

Products	Mortgages			Asset Finance	Loan and Other Servicing[1]
Targeted industry segments	Australian residential home loans	New Zealand residential home loans[2]	Commercial real estate loans	Motor vehicle and equipment finance	Loan servicing for third-party clients
Reference	Section 2.2.1	Section 2.2.2	Section 2.2.3	Section 2.3	Section 2.4
Industry market size 31 December 2020	\$1,881b[3]	\$279b[4]	n/a	\$52b[5,6]	n/a
Industry 12 month new loan commitments 31 December 2020	\$391b[7]	\$71b[8]	n/a	\$13b[9]	n/a
Pepper Money AUM 31 December 2020	\$10,454m	\$109m	\$100m	\$2,645m	\$1,734m
Pepper Money originations Calendar Year ("**CY**") 2020	\$3,237m	\$88m	\$57m	\$1,218m	n/a
% of Pepper Money's Total Operating Income – net of losses (CY2020)[10]	75%			24%	1%

1. Loan Servicing segment includes personal loans originations for 2017 to November 2019. Refer to Section 4.4.3 for further details.
2. Converted at an assumed exchange rate of NZD:AUD = 0.9331, based on the exchange rate as at 31 December 2020.
3. Total housing credit, RBA D2 Lending and credit aggregates (including owner-occupier housing credit and investor housing credit), December 2020 (published January 2021).
4. Housing, RBNZ C5 Sector lending (registered banks and non-bank lending institutions), December 2020 (published February 2021).
5. New household loan commitments for purchase of road vehicles, other transport vehicles and equipment, ABS 5601.0 Lending indicators Table 27, January 2020 – December 2020 (published February 2021). Assumes market size is approximately 4x lending commitments for last 12 months.
6. Consumer motor and equipment financing only; commercial not publicly available.
7. New household loan commitments, ABS 5601.0 Lending indicators Table 3 owner occupiers and Table 13 investors (including total housing excluding refinancing and external refinancing), January 2020 – December 2020 (released February 2021).
8. New residential mortgage lending, RBNZ C31 New residential mortgage lending by borrower type, January 2020 – December 2020 (published February 2021).
9. New household loan commitments for purchase of road vehicles, other transport vehicles and equipment, ABS 5601.0 Lending indicators Table 27, January 2020 – December 2020 (published February 2021).
10. Total operating income represents net interest income, lending fee income net of lending expenses, whole loan sales (net premium), loan losses and servicing fees and other income.

This section contains an overview of the market segments in which Pepper Money operates, including:

- a detailed description of the Australian residential home loan and Asset Finance industries in Sections 2.2.1 and 2.3 respectively;
- an overview of the New Zealand residential home loan, Australian commercial real estate loan and loan servicing industry segments in Sections 2.2.2, 2.2.3 and 2.4 respectively;
- a description of the impact of COVID-19 on the financial services industry in Section 2.5; and
- details of the regulatory landscape applicable to Pepper Money in Section 2.6.

2.2 Mortgages

2.2.1 Australian residential home loans

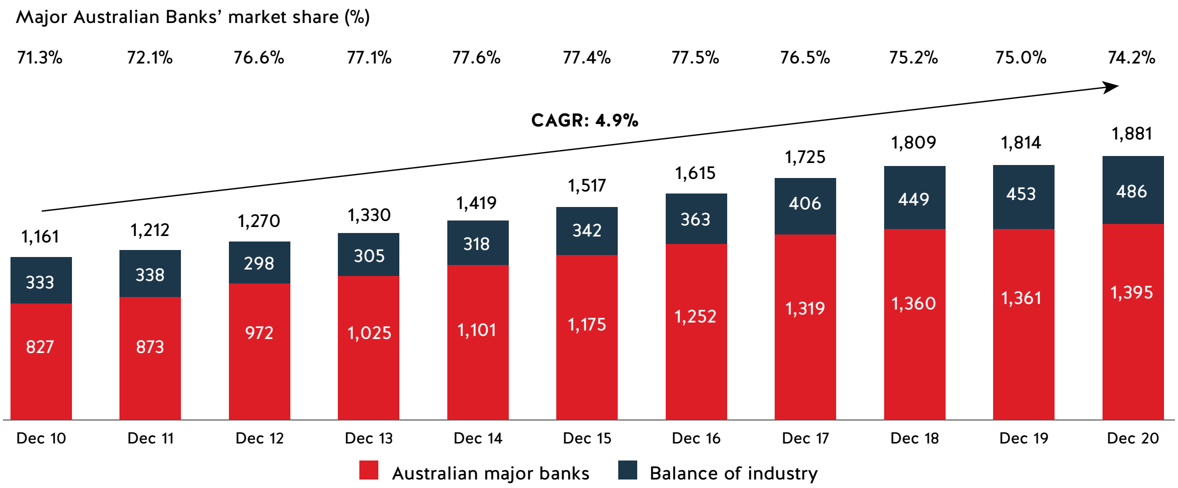
2.2.1.1 Overview of the market

The Australian residential home loan market is comprised of loans to owner-occupier and investor customers secured by residential properties.

The size of the Australian residential home loan market can be measured as the value of the total credit outstanding in the sector at a specified date. As illustrated in Figure 1, there was $1,881 billion in residential home loans outstanding in Australia as at 31 December 2020. The Australian market has grown consistently over the past 10 years with a compound annual growth rate ("**CAGR**") of 4.9%[11].

The Major Australian Banks have, in aggregate, a market share of approximately 74% of residential home loans outstanding as at 31 December 2020[12].

Figure 1: Credit outstanding to Australian households for owner-occupied and investor housing ($ billion)



Source: Total housing credit, RBA D2 Lending and credit aggregates (including owner-occupier housing credit and investor housing credit), December 2010 – December 2020 (released January 2021).

Major Australian Banks housing credit, APRA monthly authorised deposit-taking institution statistics (including owner-occupier housing credit and investor housing credit), December 2010 – December 2020 (released January 2021). ***Note:*** *Major Australian Banks lending includes their subsidiaries/alternative brands (for example, Commonwealth Bank of Australia includes BankWest, Westpac include Bank of Melbourne and St. George).*

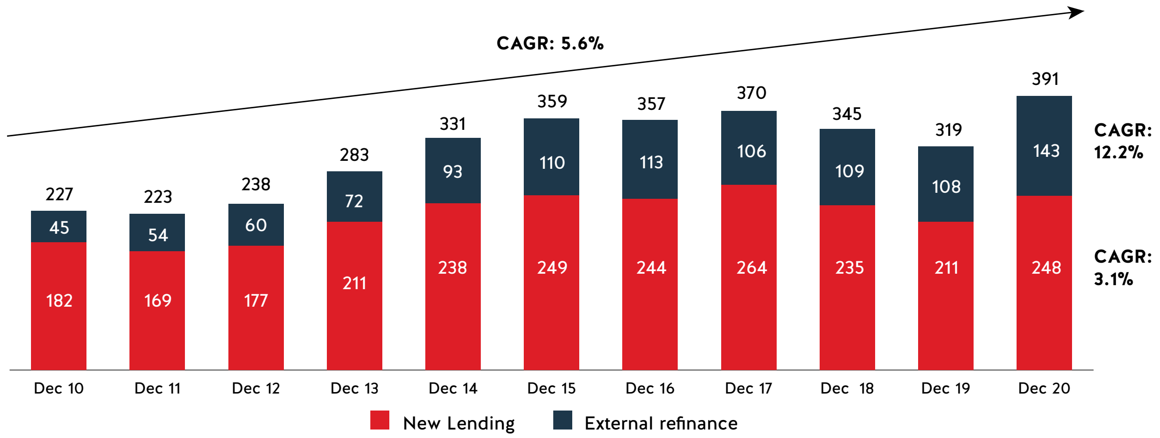
11. Total housing credit, RBA D2 Lending and credit aggregates (including owner-occupier housing credit and investor housing credit), December 2010 – December 2020 (released January 2021).
12. Total housing credit, RBA D2 Lending and credit aggregates (including owner-occupier housing credit and investor housing credit), December 2010 – December 2020 (released January 2021). Major Australian Banks housing credit, APRA monthly authorised deposit-taking institution statistics (including owner-occupier housing credit and investor housing credit), December 2010 – December 2020 (released January 2021). Note: Major Australian Banks lending includes their subsidiaries/alternative brands (for example, Commonwealth Bank of Australia includes BankWest, Westpac include Bank of Melbourne and St. George).

Another measure of the size of the Australian residential home loan market is the value of loan commitments extended to customers per annum. As illustrated in Figure 2, the value of new loan commitments for Australian housing finance for the 12 months to 31 December 2020 was $391 billion. New loan commitments are comprised of two key components:

- new loan commitments for new lending, which accounted for $248 billion for the 12 months to 31 December 2020; and
- new loan commitments from external refinancing of existing loans from one lender to another, which accounted for $143 billion for the 12 months to 31 December 2020.

The Major Australian Banks' share of new loan commitments for new housing lending[13] was 70% for the 12 months to 31 December 2020[14].

Figure 2: New loan commitments for Australian housing finance ($ billion, trailing 12 months)



Source: New household loan commitments, ABS 5601.0 Lending indicators Table 3 owner-occupiers and Table 13 investors (including total housing excluding refinancing and external refinancing), January 2010 – December 2020 (released February 2021).

2.2.1.2 Overview of Australian residential home loan products

Australian residential home loans are characterised by the features set out in Table 2 below.

Table 2: Key loan and customer features

Category	Description	Market composition[15] (%, credit outstanding)
Customer classification	Residential home loan customers in Australia can be split into two key classes: • **owner occupied:** customers live, or intend to live, in the property secured by the home loan at the commencement of the loan; and • **investor:** customers do not live, or intend to live, in the property secured by the home loan at the commencement of the loan, and typically rent the property to a tenant.	• Owner occupied: 65%[16] • Investor: 35%

13. New housing lending includes loans to purchase new and existing properties. Excludes refinancing.
14. New household loan commitments, ABS 5601.0 Lending indicators Table 2. Households; Housing finance; Total housing; By property purpose; By lender type; New loan commitments; Values (released February 2021).
15. Refer to Section 3.4.1.4 for a summary of Pepper Money's Mortgages portfolio.
16. Composition based on total market credit outstanding as at 31 December 2020. Source: Total housing credit, RBA D2 Lending and credit aggregates (including owner-occupier housing credit and investor housing credit), December 2020 (released January 2021).

Category	Description	Market composition[15] (%, credit outstanding)
Payment structure	Residential home loans are offered in Australia with two primary payment structures: • **principal and interest:** repayments made by the customer are equal to the interest payable on the loan plus an amount of the loan principal outstanding; and • **interest only:** repayments are equal to the interest payable on the loan for a set term prior to converting to principal and interest for the remainder of the loan term.	• Principal and interest: 86%[17] • Interest only: 14%
Interest rate	Residential home loans are offered in Australia with two possible interest rate structures: • **variable interest rate:** home loans provide the lender with the ability to change the interest rate throughout the life of the loan; and • **fixed interest rates:** home loans where the interest rate is set at the time of origination for a fixed period, typically between one and five years. After the fixed period, the loan reverts to a variable interest rate loan or to another fixed rate.	• Variable interest rate: 70%[18] • Fixed interest rate: 30%
Conforming vs Non-Conforming	Residential home loans are categorised into two broad categories: • **Conforming (also referred to as Prime):** home loans adhering to the traditional standard lending criteria of ADIs[19]. The standard lending criteria captures certain customer characteristics, documentation requirements (for income verification), loan purposes and security property criteria; and • **Non-Conforming (also referred to as Non-Prime):** home loans not adhering to the traditional standard lending criteria of ADIs. For example, home loans to customers with alternative income verification to individual pay slips or tax returns, or with less traditional employment type (such as self-employed or with more than one job) or with previous defaults reflected in their credit history. Both Conforming and Non-Conforming residential home loans are required to be written in accordance with the National Consumer Credit Protection Act 2009, enforced by Australian Securities and Investments Commission ("**ASIC**").	• Conforming: 88%[20] • Non-Conforming: 12%

17. Composition based on ADI exposure of credit outstanding as at 31 December 2020. Aggregate exposure (including Non-Bank Lenders) is not available. Source: ADI residential property exposure, APRA ADI quarterly property exposure statistics, December 2020 (released March 2021).
18. Loan commitments to residents funded, ABS 5601.0 Lending indicators, December 2020 (released February 2021).
19. ADIs refers to Authorised Deposit-Taking Institutions.
20. Independent research conducted for Pepper Money in 2020 by Fifth Dimension Research and Consulting. Annual Broker Sentiment study conducted in December 2020 and published in January 2021. Total sample size n= 775. The survey asked the participating brokers the percentage of residential home loan and commercial loan applications that were considered non-conforming versus conforming.

Category	Description	Market composition[15] (%, credit outstanding)
Full or alternative documentation	Residential home loans can be differentiated by the documentation that is used for verifying the income of the loan applicant: • **full documentation:** a full documentation loan ("**Full Doc**") is a loan for a customer that has access to all income verification documents that the lender requires, typically including the last two consecutive payslips and a payment summary or letter from the customer's employer, or alternatively the last two years' tax returns for self-employed customers; and • **alternative documentation:** an alternative documentation loan ("**Alt Doc**") is a home loan provided to a customer who cannot meet the documentation requirements of a Full Doc loan. These are often used by self-employed customers (including customers employed by the "gig" economy) or contract or seasonal workers. In these cases, income is verified using other sources such as Business Activity Statements and accountants' letters of verification for self-employed customers.	• n/a
Loan term	Residential home loans most commonly have a 30-year contractual loan term, although lenders may also offer different contractual loan terms. For example, Pepper Money offers a home loan with a 40-year contractual term for Non-Conforming products. There is a significant difference between the loan contractual term and the observed behavioural term. This is driven by customers re-financing, making additional repayments, and early repayment of the loan from proceeds of the sale of the underlying security property.	• n/a
Recourse	Residential home loans are generally offered on a full recourse basis, granting the lender the right to pursue the customer for any shortfall in addition to the secured property in the event of default.	• n/a

2.2.1.3 Competitive environment

Australian residential home loan providers can be differentiated by a number of factors, including size, regulatory structure, target customer demographics, source and type of funding, distribution channels and other services offered. Pepper Money categorises industry participants as follows:

- **Major Australian Banks:** the four Major Australian Banks (Australia and New Zealand Banking Group Limited ("**ANZ**"), Commonwealth Bank of Australia Limited ("**CBA**"), National Australia Bank Limited ("**NAB**") and Westpac Banking Corporation ("**WBC**")) account for approximately 74% of the credit outstanding for residential home loans[21]. These banks target a diverse customer demographic across Australia with a focus on Conforming customers. The Major Australian Banks may look to offer home loan products as part of a broader relationship with the customer, including transaction accounts, savings accounts and credit cards. Some of the Major Australian Banks operate with a multi-brand strategy (for example, CBA also offers residential home loans through its subsidiary BankWest), which have also been captured in this category.

21. Total housing credit, RBA D2 Lending and credit aggregates (including owner-occupier housing credit and investor housing credit), December 2020 (released January 2021). Major Australian Banks housing credit, APRA monthly authorised deposit-taking institution statistics (including owner-occupier housing credit and investor housing credit), December 2020 (released January 2021).

- **Regional Banks:** Regional Banks such as Bendigo and Adelaide Bank Limited ("**Bendigo**"), Bank of Queensland Limited ("**BOQ**") and Suncorp Group Limited ("**Suncorp**") typically focus on Conforming customers. They have historically relied on a combination of branch and broker distribution, with branches relatively concentrated in specific geographic regions (for example, 70% of Suncorp's branches are in Queensland[22]).
- **International Banks:** International Banks such as Citigroup Pty Limited ("**Citibank**"), HSBC Bank Australia Limited ("**HSBC**") and ING Bank Australia Limited ("**ING**") typically focus on Conforming customers, with a strong reliance on digital platforms and broker distribution.
- **Other Authorised Deposit-taking Institutions** ("**ADIs**")**:** other ADIs include banks, credit unions, building societies and mutual banks, including Credit Union Australia Limited ("**CUA**") and Newcastle Permanent Building Society Limited ("**Newcastle Permanent**"). These participants are typically established as a mutual structure (i.e. owned by members) and typically focus on Conforming customers. Historically, these ADIs have used branch networks but are increasingly relying on brokers for distribution. Other ADIs also include Macquarie Bank Limited ("**Macquarie**") and AMP Bank Limited ("**AMP Bank**") which typically focus on Conforming customers, with a strong reliance on digital platforms and broker distribution.
- **Non-Bank Lenders:** Non-Bank Lenders such as Pepper Money, Liberty Financial Group Limited ("**Liberty**"), Resimac Group Limited ("**Resimac**"), and La Trobe Financial Services Pty Limited ("**La Trobe**") tend to adopt a more flexible, risk-based approach to target a broader customer base (including Conforming and Non-Conforming customers). These lenders do not hold an ADI licence and typically rely on broker distribution channels for the majority of their originations.
- **Fintech Lenders:** Fintech Lenders such as Athena Mortgages Pty Limited ("**Athena**") and Tic-Toc Online Pty Limited ("**Tic-Toc**") and neo banks (such as Volt Bank Limited ("**Volt**")) typically target (or have a stated intention of targeting) customers direct via online distribution channels, although it is anticipated these participants may also rely on broker and other channels. These lenders are generally new entrants to the market, with technology investment aiming to provide a seamless and customer centric origination process. A subset of Fintech Lenders have recently obtained a banking licence, with four neo banks being granted a banking licence by APRA since January 2018[23]. Of these four neo banks, Xinja Bank Limited ("**Xinja**") decided to exit banking and return its ADI licence on 16 December 2020 and NAB has entered into a scheme of implementation to acquire 100% of shares in 86 400 Holdings Ltd ("**86 400**") on 29 January 2021.

Distribution models

Most participants in the Australian residential home loan market distribute products through a variety of channels. The composition of each participant's distribution model is a key differentiating factor for competitors in the industry.

Traditional distribution channels for Australian home loan lenders include bank branch networks, mortgage brokers, white labelling and direct to consumers via online or telephone sales. Distribution channels for Non-Bank Lenders typically include a combination of White Label and mortgage broker channels as well as direct to consumer originations.

22. APRA authorised deposit-taking institutions' points of presence database statistics, June 2020 (released October 2020).
23. Australian-owned authorised deposit-taking institutions, APRA register of authorised deposit-taking institutions (accessed February 2021) https://www.apra.gov.au/register-of-authorised-deposit-taking-institutions.

Table 3 below provides an overview of the different distribution models used by market participants. In many cases, participants will use a combination of channels to attract and engage with a single customer. For example, customers may search for a lender online and then call the contact centre to commence the application process.

Table 3: Distribution channels

Channel	Description	Example participants
Physical branches	Lenders operate with a physical branch network and assist customers with a home loan application alongside other banking needs.	Major Australian Banks Regional Banks International Banks Other ADIs
Mortgage brokers	Mortgage brokers manage the application process for customers, including selecting an appropriate home loan product from a panel of lenders, arranging documentation and handling lender discussions. Mortgage brokers are required to either hold an Australian Credit Licence ("**ACL**") or be an Authorised Credit Representative ("**ACR**") of a licensee. Under licensing requirements, brokers are bound by best interest duty to their customers as of 1 January 2021. Refer to Section 2.6.1 for further details.	All
White Label	Lenders provide brokers, aggregators and mortgage managers with a home loan product. The product is branded with the broker's, aggregator's or mortgage manager's brand and sold to their client base.	Major Australian Banks Regional Banks Non-Bank Lenders
Direct – online	Lenders use direct-to-consumer marketing strategies (including online advertising, search engine optimisation and comparison sites) to attract customers to apply for a loan directly through the website or to call a contact centre. Online functionality and landing pages are often used across different channels.	All
Direct – Telephone	Lenders operate with a specialist contact centre. Potential customers can contact the centre directly, with a telephone representative assisting them to select an appropriate lending product and apply for a loan.	All

Funding models

Industry participants use a range of sources to fund loans provided to customers. The composition of each participant's funding model is a key differentiating factor for competitors in the industry.

Historically, ADIs' (including Major Australian Banks, Regional Banks, International Banks, Other ADIs) funding comprises approximately one-third retail deposits, one-third wholesale deposits and one-third wholesale debt[24].

More recently, as part of the government's COVID-19 support package, the Reserve Bank of Australia ("**RBA**") established a $200 billion Term Funding Facility ("**TFF**") to provide liquidity for ADIs, allowing lenders access to three-year funding at the fixed rate of 0.1% until 30 June 2021. Refer to Section 2.5 for further details.

24. Developments in Banks' Funding Costs and Lending Rates, RBA Bulletin (published March 2020) (https://www.rba.gov.au/publications/bulletin/2020/mar/developments-in-banks-funding-costs-and-lending-rates.html).

Non-Bank Lenders are not eligible to accept deposits and therefore rely on a combination of warehouse funding, securitisation markets and additional wholesale funding sources. Lenders access securitisation markets through the issuance of residential mortgage-backed securities ("**RMBS**") (refer to Section 2.2.1.4). Some Non-Bank Lenders may also use mortgage funds as an additional source of funding.

2.2.1.4 Key trends in the Australian residential home loan market

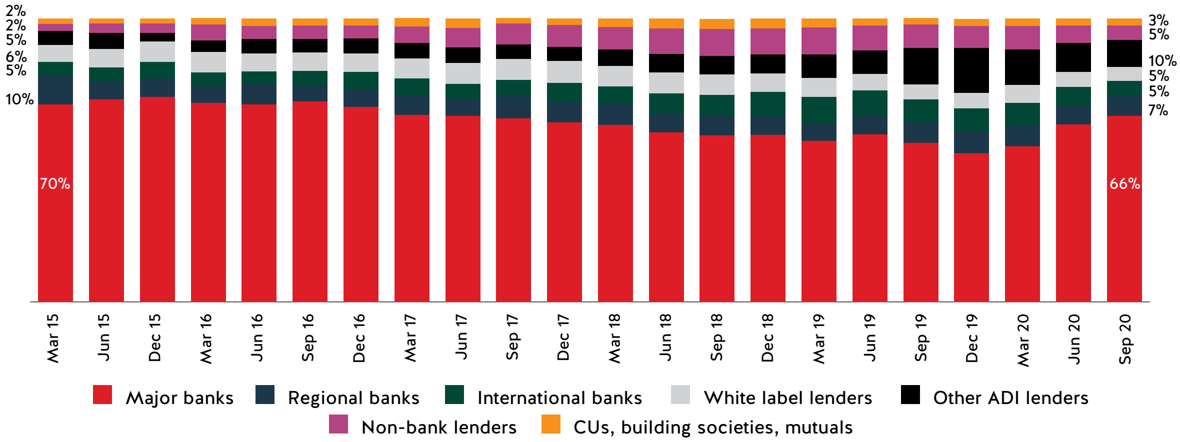
The Australian residential home loan market is subject to the following key trends:

Increased market share of Non-Bank Lenders and non-Major Bank lenders

In recent years, Non-Bank residential home loan lending has been growing above bank residential home loan lending.

The Non-Bank Lender market share of mortgage broker home loan originations increased from 2% for the quarter of March 2015 to 5% for the quarter of September 2020[25].

Figure 3: Share of broker-originated lending settled by lender type (%)



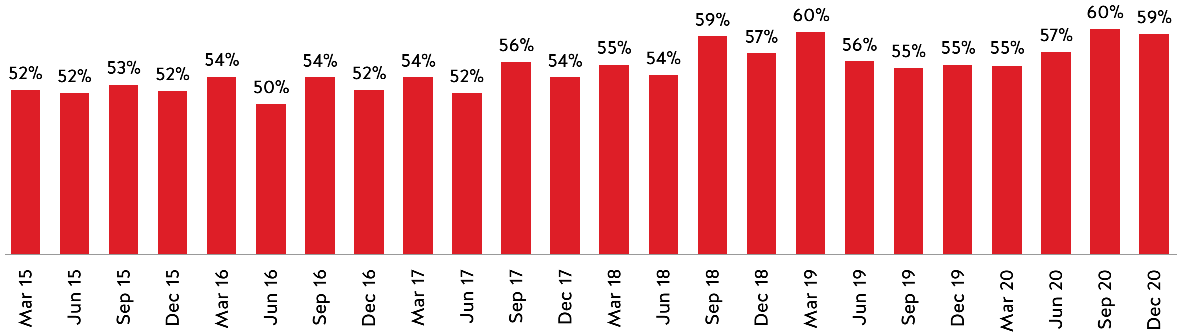
Source: MFAA Industry Intelligence Service, 11th Edition. Represents quarterly market share for the quarter ending in the labelled month.
Note: Major Australian Banks and other ADI lenders may also provide White Label arrangements. Major Australian Banks lending includes their subsidiaries/alternative brands (for example, Commonwealth Bank of Australia includes BankWest, Westpac include Bank of Melbourne and St.George). No data was available for July-September 2015 quarter.

Increased prominence of mortgage brokers for distribution

A large proportion of customers continue to use mortgage brokers to source a home loan. As illustrated in Figure 4 below, for the December 2020 quarter, 59% of home loans were settled by brokers, compared to 52% for the March 2015 quarter. This is a slight reduction from 60% of home loans recorded for the September 2020 quarter, which was the highest market share recorded since inception of the Mortgage & Finance Association of Australia ("**MFAA**") benchmarking report, first released in 2015[26].

The consistent, strong market share of brokers indicates the key role brokers play in home loan distribution, providing customer choice and fostering industry competition.

Figure 4: Market share of home loans settled by brokers (%)



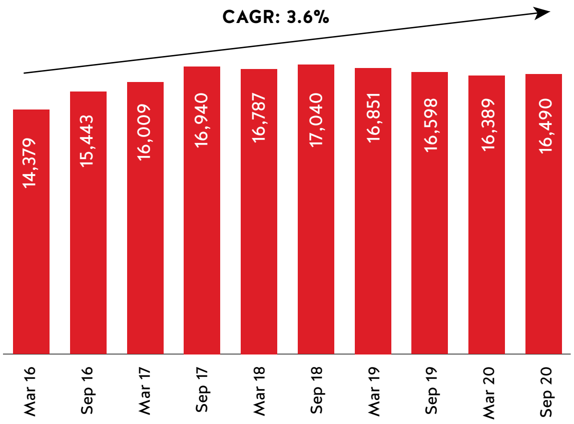
Source: MFAA Industry Intelligence Service, 11th Edition. Data following the quarter ending March 2020 released by research group comparator, a CoreLogic business and commissioned by the MFAA.

25. MFAA Industry Intelligence Service, 11th Edition.
26. Mortgage brokers record highest ever market share, MFAA (June 2019). https://www.mfaa.com.au/news/mortgage-brokers-record-highest-ever-market-share-amidst-tough-market-conditions.

As illustrated in Figure 5, there were 16,490 mortgage brokers in Australia as at 30 September 2020. After the broker population reached a high point in September 2018, exceeding 17,000 brokers for the first time, the December 2020 period has seen a slight rebound from the decline in the broker population in the past two years. The reduction in the total broker population over this period coincided with an at times more challenging housing market, along with increased industry scrutiny. This has resulted in a reduction of inactive or less productive brokers[27].

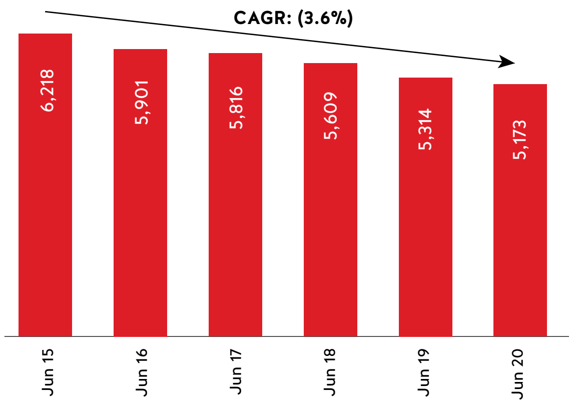
As illustrated in Figure 6, bank branches have also reduced, by 17% (equivalent to 1,045 branches), from June 2015 to June 2020. This trend continues with Suncorp closing 20 bank branches, mostly in Queensland and New South Wales, representing a 17% reduction in its physical network amid the structural shift to digital banking that has accelerated during COVID-19[28]. In addition, ANZ announced the closure of 19 branches across Australia with Katherine Bray, ANZ's Managing Director of Retail, commenting that "the bank was simply reflecting the changing habits of its customers."[29]

Figure 5: Number of mortgage brokers (#)



Source: MFAA Industry Intelligence Service, 11th Edition.
Note: Represents total for sampled aggregators, as reported by MFAA. There is one less aggregator included from October 2017 to March 2020.

Figure 6: ADI branches (#)



Source: APRA authorised deposit-taking institutions' points of presence statistics, June 2020 (released October 2020). 2015-16 branch numbers from RBA C8 – Points of access to the Australian Payments system (released January 2019).

Changing regulatory environment

In recent years, there has been an increase in the regulation and scrutiny of Major Australian Banks and other ADIs. Pepper Money believes that this has created, and will continue to create, opportunities for more nimble non-bank players, such as Pepper Money, to target growth in pockets of opportunity. A number of non-exhaustive, notable examples include:

- **December 2014:** introduction by APRA of a 10% cap of on year-on-year growth in ADI's investor loan books and introduced serviceability buffers to strengthen mortgage lending standards[30]. During this period, ADIs increased interest rates on these products to meet these new investor and interest-only benchmarks, creating an opportunity for Non-Bank Lenders to increase market share without changing their risk appetite or underwriting rules;
- **July 2016:** increase in mortgage risk weighting of Internal Ratings-Based banks, increasing the capital requirements for Major Banks, to narrow the difference between standardised and Internal Ratings-Based banks[31];
- **March 2017:** APRA announced a benchmark that ADIs should limit their new interest-only lending to 30% of total new residential mortgage lending and, within that, they should tightly manage new interest-only loans extended at high loan to value ratios ("**LVR**")[32,33];

27. MFAA Industry Intelligence Service, 11th Edition.
28. Suncorp shutters 20 branches citing COVID-19 digital shift, AFR (published 9 September 2020). https://www.afr.com/companies/financial-services/suncorp-shutters-20-branches-citing-covid-19-digital-shift-20200909-p55txr.
29. ANZ to close 19 branches around Australia as customers move online, 9news (published 15 February 2021). https://www.9news.com.au/national/anz-bank-19-branches-to-close-around-australia-as-customers-move-online/3f366028-6689-46b6-9bcd-b3b5158eeb49.
30. Reinforcing Sound Residential Mortgage Lending Practices. APRA (published 9 December 2014). https://www.apra.gov.au/sites/default/files/141209-Letter-to-ADIs-reinforcing-sound-residential-mortgage-lending-practices.pdf.
31. APRA increases capital adequacy requirements for residential mortgage exposures under the internal ratings-based approach. https://prod.apra.shared.skpr.live/news-and-publications/apra-increases-capital-adequacy-requirements-for-residential-mortgage.
32. Represents loans with LVR that are in excess of 80%.
33. Financial Stability Review, April 2017, Interest-only Mortgage Lending. https://www.rba.gov.au/publications/fsr/2017/apr/box-b.html.

- **February 2018:** APRA released a discussion paper incorporating the amendments from the recently finalised Basel III reforms. APRA proposed a number of revisions to the capital framework, including increasing capital requirements for ADIs to ensure they are "Unquestionably Strong";
- **February 2019:** Banking Royal Commission, a broad ranging inquiry on the conduct/governance of banks, insurers, financial services providers and superannuation funds, which resulted in significant focus and scrutiny on Australian banks' culture and responsible lending practices[34]; and
- **September 2020**: A proposed change to the law announced by the Federal Government which, if enacted, would see responsible lending obligations removed, allowing lenders to rely on the information provided by their customers as move to a "borrower responsibility principle".

Pepper Money believes that increased regulation and scrutiny of the Major Australian Banks and other ADIs has caused these participants to moderate the growth of their loan books in particular products during certain periods of time.

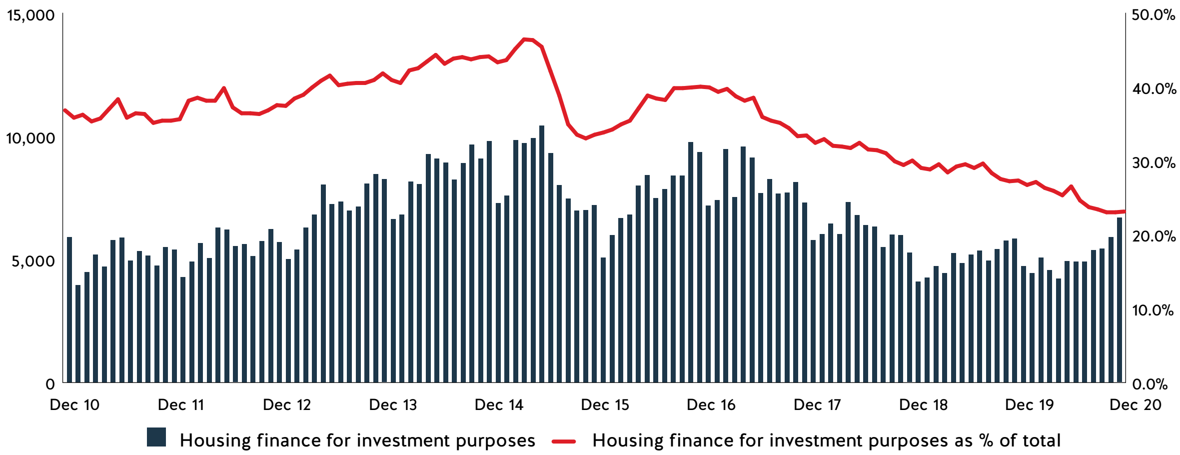
Refer to Section 2.6 for further details on the regulatory landscape.

Negative gearing

Australia's taxation regulations permit the costs of investment properties (including mortgage interest) to be set-off against the income generated from the properties. Negative gearing occurs when the value of the interest paid on the loan and other expenses is higher than the income the property generates, allowing individuals to apply the loss as a tax deduction in their individual tax returns.

Figure 7 highlights a recent rebound in housing finance issued for investment purposes in dollar terms. However, there has been an overall downward trend in recent years due to a number of factors, including APRA's intervention in limiting the growth of lending to housing investors to 10% per annum as outlined above (this limit was lifted in December 2018).

Figure 7: Housing lending commitments for investment purposes ($ million)



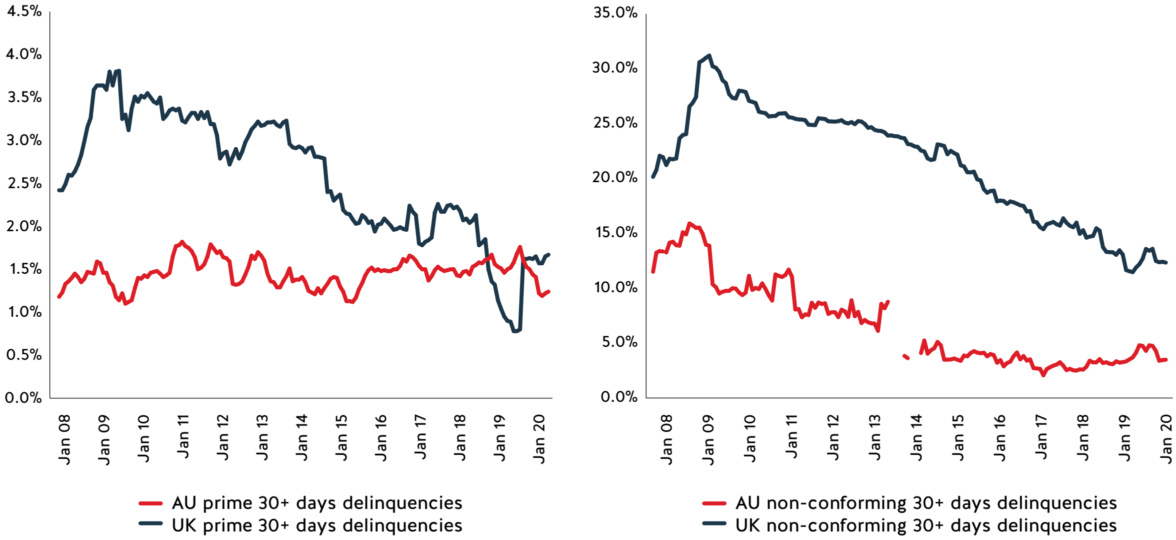
Source: New household loan commitments, ABS 5601.0 Lending indicators Table 1, December 2010 – December 2020 (released February 2021).

Low delinquency rates

Delinquencies occur when there is a failure to meet a loan repayment by the due date. The Australian residential mortgage market has had sustained low delinquencies historically, even during periods of financial distress such as during the Global Financial Crisis ("**GFC**") in 2008-09 and COVID-19 in 2020.

34. Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry https://financialservices.royalcommission.gov.au/Pages/default.html.

Figure 8: Prime and non-conforming delinquencies



Source: Moody's RMBS Australia and UK Performance update, January 2008 – December 2020 (published March 2021). Noting, no data was available between January 2014 and September 2014 for Australian non-conforming 30+ days delinquencies.

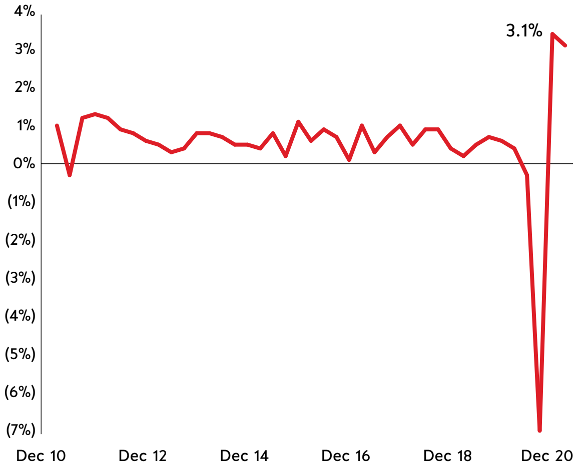
Macroeconomic environment

A number of economic factors support the Australian residential home loan market, including:

- **economic growth:** the Australian economy had delivered 29 years of consecutive annual growth until the onset of COVID-19[35]. As illustrated in Figure 9, the Australian economy contracted across the March 2020 and June 2020 quarters. The economy officially recovered from a technical recession by posting a 3.4% expansion in the September 2020 quarter[36]. The RBA expects recovery to continue with the central scenario being for GDP to grow by 3.5% over both 2021 and 2022[37];
- **wage growth:** wage growth supports customers' disposable income and capacity to apply for a home loan and meet repayments. As illustrated in Figure 10, wage growth has been trending downwards in recent years to 1.4% for the year to December 2020;
- **population growth:** population growth supports demand for housing. Australia's population has grown by 16% from December 2010 to September 2020[38]. Figure 11 illustrates Australia's population growth since December 2010;
- **unemployment rate:** low unemployment increases the number of Australians who may be eligible for a home loan. As illustrated in Figure 12, for the month of February 2021, the Australian unemployment rate was at 5.8% after the spike in June 2020 as a result of the impact of COVID-19; and
- **RBA cash rate:** the current expansionary monetary policy stance has supported dwelling and other asset price appreciation[39]. Since December 2010, the RBA has adopted an expansionary stance, as highlighted by the RBA's decision to lower the cash rate by 15 basis points to a record low of 0.10% in November 2020[40]. The RBA has stated that "it is committed to maintaining highly supportive monetary conditions until its goals are achieved"[41].

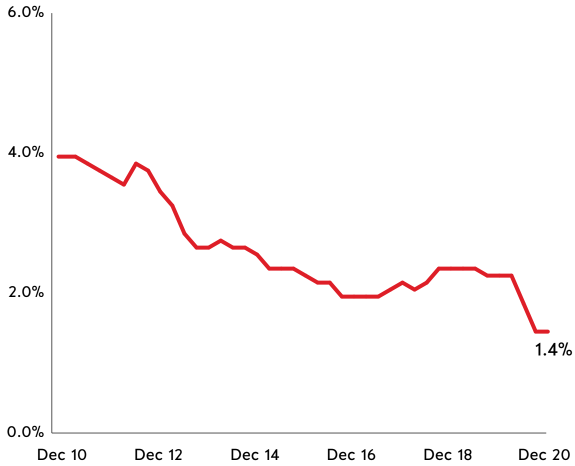
35. Recession, RBA (accessed 16 February 2021). https://www.rba.gov.au/education/resources/explainers/pdf/recession.pdf?v=2021-02-15-20-31-42.
36. Real GDP growth (seasonally adjusted), RBA H1 Gross domestic product and income. A "technical recession" is defined by RBA where there have been two consecutive quarters of negative growth in real GDP.
37. Minutes of the Monetary Policy Meeting of the Reserve Bank Board (published 2 February 2021). https://www.rba.gov.au/media-releases/2021/mr-21-01.html.
38. Natural increase and net overseas migration, ABS 3101.0 Australian demographic statistics Table 1 population change, December 2010 – September 2020 (released March 2021).
39. Minutes of the Monetary Policy Meeting of the Reserve Bank Board (published 1 October 2019). https://www.rba.gov.au/monetary-policy/rba-board-minutes/2019/2019-10-01.html.
40. Statement by Philip Lowe, RBA Governor: Monetary Policy Decision (published 3 November 2020). https://www.rba.gov.au/media-releases/2020/mr-20-28.html.
41. Minutes of the Monetary Policy Meeting of the Reserve Bank Board (published 2 February 2021). https://www.rba.gov.au/media-releases/2021/mr-21-01.html.

Figure 9: Real GDP growth, quarter ended (%)



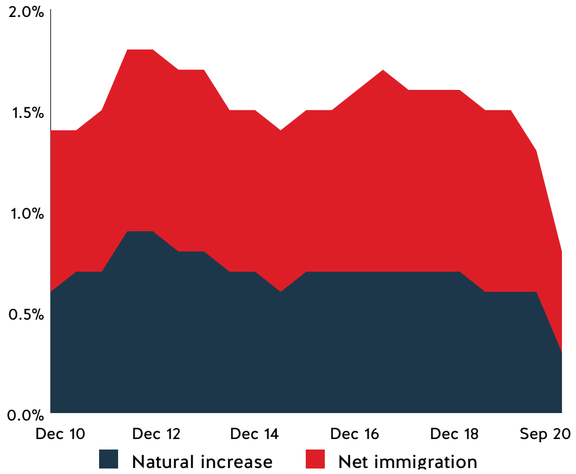
Source: Real GDP growth (seasonally adjusted), RBA H1 Gross domestic product and income, December 2010 – December 2020 (released March 2021).

Figure 10: Wage growth, year ended (%)



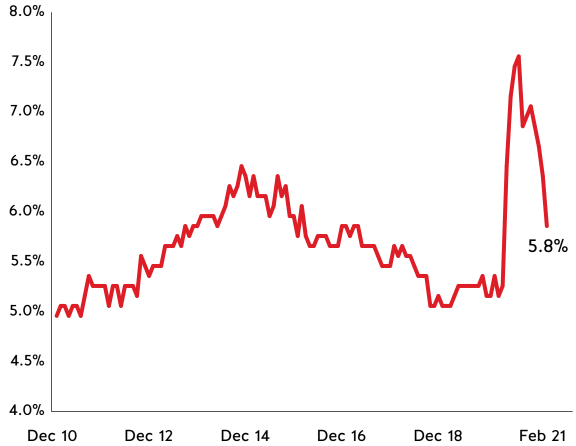
Source: Wage growth (seasonally adjusted), RBA H4 Labour costs and productivity, December 2010 – December 2020 (released February 2021).

Figure 11: Population growth, year ended (%)



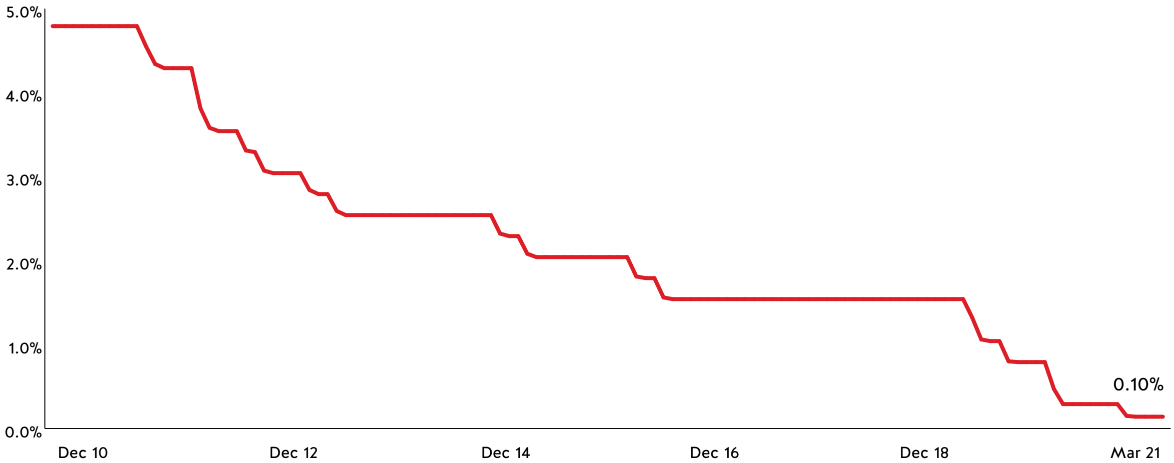
Source: Natural increase and net overseas migration, ABS 3101.0 Australian demographic statistics Table 1 population change, December 2010 – September 2020 (released March 2021).

Figure 12: Australian unemployment rate (%)



Source: Unemployment rate (seasonally adjusted), RBA H5 Labour Force, December 2010 – February 2021 (released March 2021).

Figure 13: RBA cash rate

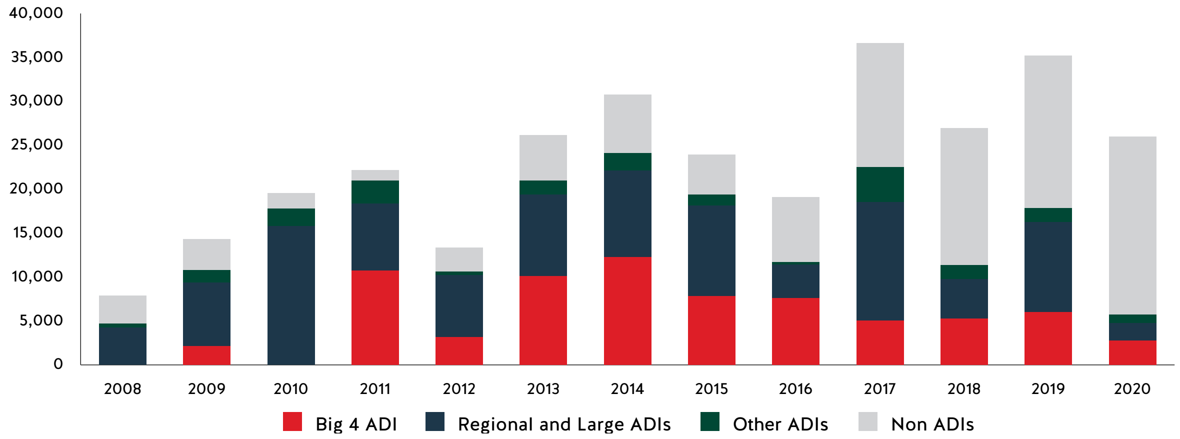


Source: Cash rate target (monthly average), RBA F1.1 Interest rates and yields (monthly), December 2010 – February 2021 (released March 2021).
Note: Cash rate remains at 0.10% on 2 March 2021.

Increased access to funding by Non-Bank Lenders

As illustrated in Figure 14, RMBS issued in Australia during 2020 was approximately $26 billion. The increased volume of RMBS issued by Non-Bank Lenders is illustrative of the strong growth in non-bank home loan lending. Non-Bank Lenders are a significant part of the overall Australian securitisation market, comprising 78% of all RMBS issuances in 2020[42].

Figure 14: Australian Collateral-backed RMBS issuance ($ million)



Source: NAB, The Australian Securitisation Market Review and Outlook 2021.

Increased data availability through Comprehensive Credit Reporting and Open Banking

The Australian Government has mandated a Comprehensive Credit Reporting ("**CCR**") regime which requires large ADIs to provide comprehensive credit information on open and active consumer credit accounts to licensed credit reporting bodies. Since October 2018, the Major Australian Banks have increased their participation in the credit reporting system pending legislation enacting the mandate.

Other credit providers, including Pepper Money, have progressively implemented the CCR regime in their systems. The introduction of CCR improves the ability for participating lenders to assess customer credit quality, and reduces the risk of undisclosed customer debts, by providing additional positive credit reporting data on customers (including dates that accounts were opened, repayment history and credit limits) that were previously unavailable. This has allowed lenders to make more informed credit assessments on potential customers and reduces the competitive advantage that the Major Australian Banks have had over institutions with a smaller customer base. The introduction of CCR has allowed lenders to experience improved loan portfolio credit performance and the opportunity to grow into new markets, and has also allowed customers to be better matched with their borrowing capacity and have fairer access to credit[43]. Pepper Money believes this has assisted some of the more agile lenders, such as Pepper Money, to attract new customers.

In addition, Pepper Money anticipates that, following the phase-in of CCR and increased focus on personal finances as a result of COVID-19, consumers are becoming more aware of their credit rating and the products available to them based on their credit rating – a trend which has been seen in offshore markets (such as the UK and New Zealand)[44]. Pepper Money views its ability to price based on risk, will enable it to capture customers who may have previously been unaware of the high rates they were being charged based on their risk profile.

42. NAB, The Australian Securitisation Market Review and Outlook 2021.
43. Australian Retail Credit Association (accessed 31 January 2020) https://www.arca.asn.au/focus/for-consumers.html, https://www.arca.asn.au/focus/for-industry.html.
44. For example, in the UK Experian publishes a table of credit score ranges, and likely mortgage outcomes for a customer. For example, if you have a rating of Poor (561 – 720) You may get mortgage deals, but with higher interest rates https://www.experian.co.uk/consumer/mortgages/guides/credit-and-mortgages.html (accessed 9 February 2020).

In August 2019, the Australian Government passed a bill to legislate the Consumer Data Right across multiple industries. The Consumer Data Right, launched in June 2020, mandates ADIs to share consumer data in a machine-readable format which is expected to increase the transparency of product and service options across the industry, reduce barriers to entry and help facilitate consumer choice. Industry participants with adaptive business models not constrained by legacy systems and processes are more efficient at identifying and responding to opportunities arising from data availability[45].

Refer to Section 2.6.1 for further details.

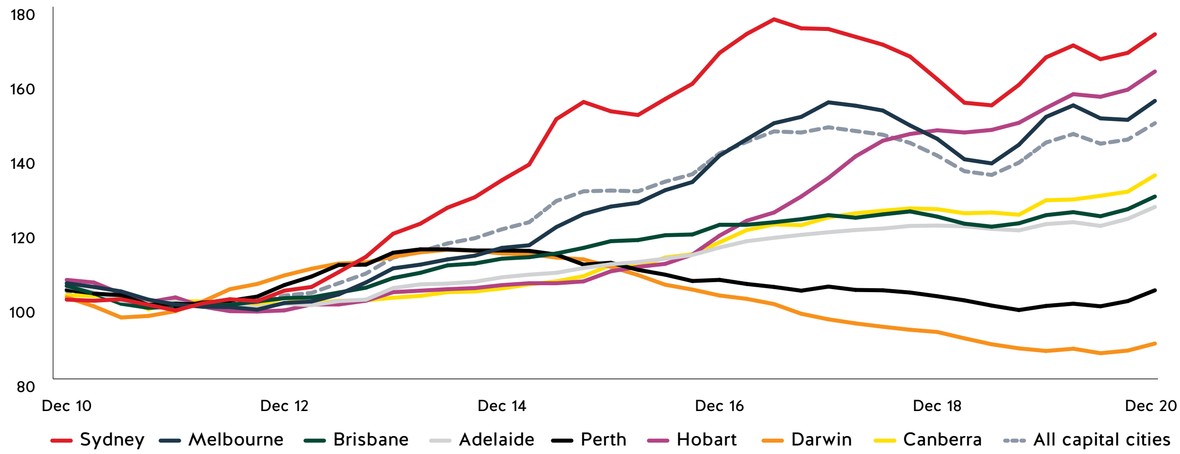
House prices and housing activity

A house is the most important asset owned by the majority of Australian households[46]. As illustrated in Figure 15, the Residential Property Price Index for Australian capital cities has increased 44% from December 2010 to December 2020, with Sydney, Melbourne and Hobart outperforming other capital cities. Following the December 2017 all-time high, the Residential Property Price Index for Australian capital cities declined by 9% to June 2019 (most recent trough). The index has shown signs of recovery, with the December 2020 quarter 10% above the June 2019 quarter. Additional data points have also suggested the strong momentum in the housing market has continued, with CoreLogic's December 2020 Hedonic Home Value Index indicating a 2.3% increase in dwelling prices for the December 2020 quarter[47].

The recovery in the Residential Property Price Index has been most pronounced in Sydney and Melbourne, which experienced some of the largest reductions for the two years to the June 2019 quarter of (13%) and (7%) respectively[48].

CoreLogic has attributed the rebound in prices since June 2019 to "record low interest rates, along with a substantial rise in consumer confidence as COVID-19 related restrictions were lifted and forecasts for economic conditions turned out to be overly pessimistic. Containing the spread of the virus has been critical to Australia's economic and housing market resilience"[49]. Furthermore, CBA forecasts a 9% lift in house prices in 2021 and a 5% rise for apartments[50].

Figure 15: Capital city Residential Property Price Index



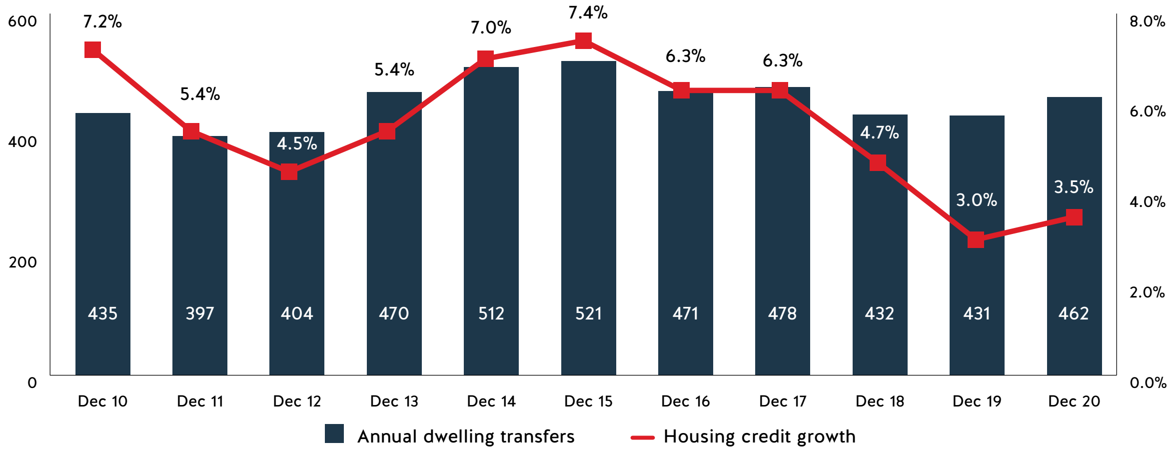
Source: ABS 6416.0 Residential Property Price Indexes: Eight Capital Cities. December 2020 (published March 2021).

45. Open banking: switch or stick?, Deloitte (published October 2019); Review into Open Banking in Australia, Australian Government Treasury (published December 2017).
46. RBA Long-run Trends in Housing Price Growth (September Quarter 2015) https://www.rba.gov.au/publications/bulletin/2015/sep/3.html.
47. CoreLogic – Hedonic Home Value Index (4 January 2021) https://www.corelogic.com.au/sites/default/files/2021-01/CoreLogic%20home%20value%20index%20Jan%202021%20FINAL.pdf.
48. Note: Darwin also experienced an 11% decrease in its residential property price index for the period between June 2017 and June 2019.
49. CoreLogic – Housing markets build momentum through the end of 2020, pointing to a strong start to 2021 (4 January 2021) https://www.corelogic.com.au/news/corelogic-december-home-value-indices.
50. Commbank – Strong start to 2021 for Aussie house prices (1 February 2021) https://www.commbank.com.au/content/shared/property/corelogic-monthly-home-value-index.html.

Home loan activity and credit growth is typically supported by the underlying level of demand for housing. As illustrated in Figure 16, for the 12 months to December 2020 dwelling transfers were approximately 462,000 or 7% above the number of dwelling transfers for the year to December 2019, which represented the lowest level of dwelling transfers since the years to December 2011 and 2012. This has led to an increase in housing credit growth to 3.5% for the 12 months ending December 2020[51].

The reduced number of properties for sale over 2019 was highlighted in the Deloitte Australian Mortgage Report 2020 as a feature of 2019, which occurred despite a large number of home loan pre-approvals, with the report commenting that customers were ready to buy but could not find the property due to a lack of supply in the market[52].

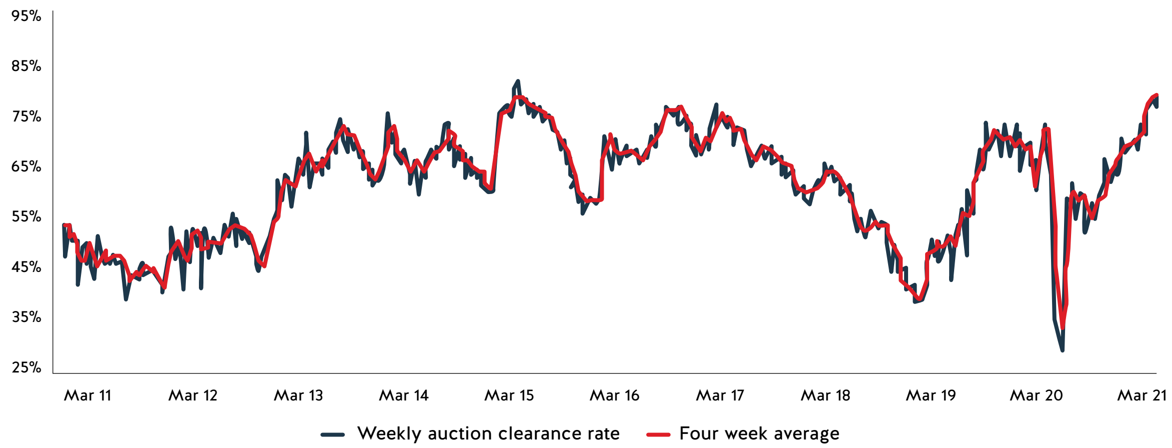
Figure 16: Annual dwelling transfers and 12-month credit growth – housing (thousands/'000s)



Source: ABS 6416.0 Residential Property Price Indexes: Eight Capital Cities. Tables 4 and 5. Median Price (unstratified) and Number of Transfers (Capital City and Rest of State), December 2010 – December 2020 (released March 2021). RBA D1 Growth in selected financial aggregates, December 2010 – December 2020 (released January 2021).

There have been early indicators that support increased housing market activity in the early part of 2021, including an increase in auction clearance rates, as illustrated in Figure 17.

Figure 17: Weekly auction clearance rate, combined capital cities



Source: CoreLogic. https://www.corelogic.com.au/news/national-auction-market-preview-21-march (accessed 19 March 2021).

51. ABS 6416.0 Residential Property Price Indexes: Eight Capital Cities. Tables 4 and 5. Median Price (unstratified) and Number of Transfers (Capital City and Rest of State), December 2010 - December 2020 (released March 2021). RBA D1 Growth in selected financial aggregates, December 2010 – December 2020 (released January 2021).
52. Australian Mortgage Report, Deloitte (2020). https://www2.deloitte.com/au/en/pages/financial-services/articles/mortgage-report.html.

2.2.1.5 Examples of underserved customer segments

Pepper Money believes there are a number of segments within the Australian residential home loan market that are currently underserved, particularly segments within the Non-Conforming borrower set.

Overview of the Non-Conforming market

The Non-Conforming Australian residential home loan market is comprised of customers that are unable to satisfy the criteria of the Major Australian Banks and other ADIs. Non-Conforming customers generally have one or more of the following characteristics: irregular income, differing employment types, differing income documentation, variable saving patterns and adverse or limited credit history. Applicants may also be impacted by short-term life events such as unemployment, illness or divorce which have led to some form of temporary deterioration in credit quality standing. Pepper Money considers that with the evolving nature of the employment market (for example, the increased proportion of employed Australians being part-time, as described below) and greater access to, and depth of, data that the proportion of the Australian residential home loan market that is Non-Conforming has likely increased over the past five years.

Independent research conducted for Pepper Money by Fifth Dimension Research and Consulting[53] suggested that the non-conforming market represented approximately 12% of the existing Australian residential home loan market as at December 2020[54].

Self-employed and casually employed

One sub-segment of the Non-Conforming market is self-employed and casually employed customers. Customers who are self-employed include those that own and operate their own businesses, work in the "gig economy"[55] or who work casually across one or multiple jobs and are often unable to satisfy the rigid documentation requirements for income verification from traditional ADI lenders. Credit assessment of self-employed and casually employed loan applicants is more challenging than for customers employed full-time due to monthly variability of income, the potential for multiple income sources and the form of documentation provided to verify income. As such, self-employed and casually employed customers are typically best served by specialist lenders with tailored products and credit assessment staff trained in underwriting these types of applicants.

From 2016 to 2020, the proportion of Australians that were employed part-time increased from 31.8% to 32.1% (an increase of approximately 0.3 million people)[56]. This period has also seen the rise of the "gig economy", namely short-term outcome-defined work typically offered through a digital platform which connects the individuals or businesses to those looking to obtain services on demand (for example, Airtasker contractors, Uber drivers and AirBnB rental income)[57]. A national survey commissioned by the Victorian Government in 2019 found 7.1% of survey respondents currently working (or offering to work) for the "gig economy" and 13.1% of survey respondents having, at some time, undertaken "gig economy" work[58].

53. Fifth Dimension Research and Consulting provides a range of quantitative and qualitative research approaches, design thinking and business consulting services. Research was conducted between 2 December 2020 and 21 December 2020.
54. Non-Conforming home loan market, Independent research conducted by Fifth Dimension Research and Consulting (published January 2021).
55. Gig economy refers to independent contractors, online platform workers, contract firm workers, on-call workers and temporary workers. Gig workers enter into formal agreements with on-demand companies, for example, Uber, TaskRabbit, to provide services to the company's clients.
56. ABS 62020.0 Labour Force, Australia. Table 1 Labour force status by Sex, Australia – Trend, Seasonally adjusted, December 2016 – December 2020 (released January 2021).
57. Digital Platform Work in Australia, Preliminary findings from a national survey, 18 June 2019. https://s3.ap-southeast-2.amazonaws.com/hdp.au.prod.app.vic-engage.files/6915/6081/7253/Digital_Platform_Work_in_Australia_-_Preliminary_Findings_18_June_2019.pdf.
58. Digital Platform Work in Australia, Preliminary findings from a national survey, 18 June 2019. Survey included 14,000 usable responses. https://s3.ap-southeast-2.amazonaws.com/hdp.au.prod.app.vic-engage.files/6915/6081/7253/Digital_Platform_Work_in_Australia_-_Preliminary_Findings_18_June_2019.pdf.

2.2.2 New Zealand residential home loans

2.2.2.1 Overview of the market

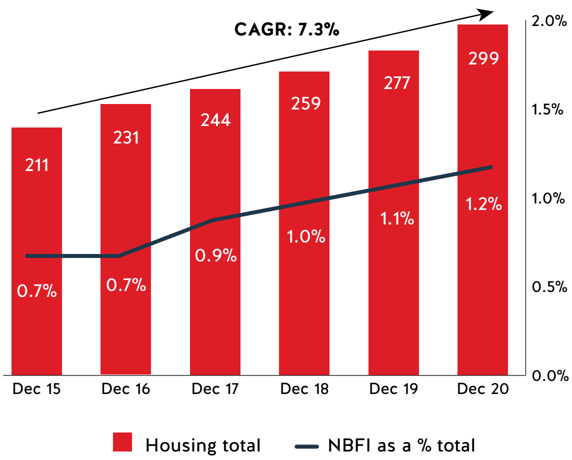
The size of the New Zealand residential home loan market can be measured as the value of the total credit outstanding in the sector at a specified date. As illustrated in Figure 18, there was NZ$299 billion in residential home loans outstanding in the New Zealand market as at 31 December 2020. The New Zealand residential home loan market has grown consistently for the five years between 31 December 2015 and 31 December 2020 at a CAGR of 7.3%[59].

Another measure of the size of the New Zealand residential home loan market is the value of new residential mortgage lending per annum, which was NZ$76 billion for the 12 months to 31 December 2020, as illustrated in Figure 19 below.

The composition of New Zealand new residential mortgage lending has fluctuated over the last five years, with 2020 new residential mortgage lending returning to 2016 lending levels. This has been driven by the growth in new mortgages to first home buyers and owner-occupiers offset by a decrease in new residential mortgage lending to investors. The slowdown in new residential mortgage lending from 2016 is in part due to banks tightening LVR criteria in October 2016[60] and the tightening of mortgage lending standards during 2017[61], as well as the introduction of the Overseas Investment Amendment Act (which took effect in October 2018), banning most foreign buyers from purchasing existing property for residential purposes[62]. In addition, lenders will have restrictions on the proportion of new lending above LVR thresholds from March 2021 onwards (refer to Section 2.6.2 for more detail).

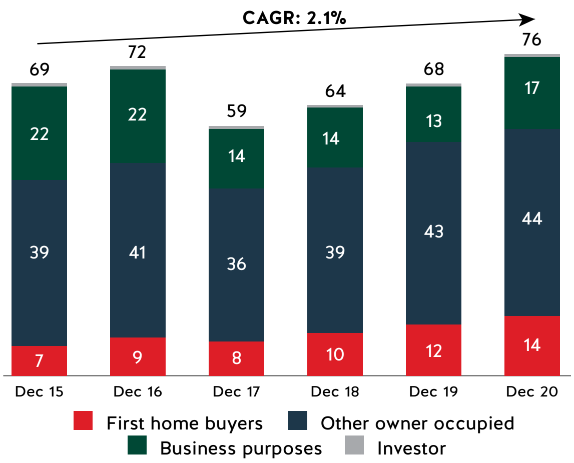
Pepper Money remains positive on the outlook for residential property sales across New Zealand. New residential mortgage lending has been supported by a number of factors including recent strong housing market data following a number of RBNZ's reductions in official cash rates, population growth including high levels of net migration and the removal of uncertainty surrounding capital gains taxes which may have been weighing on investor demand[63].

Figure 18: Residential mortgage lending – New Zealand (NZ$ billion)



Source: Housing, RBNZ C5 Sector lending (registered banks and non-bank lending institutions), December 2015 – December 2020 (published March 2021).

Figure 19: New residential mortgage lending – New Zealand (NZ$ billion, trailing 12 months)



Source: New residential mortgage lending, RBNZ C31 New residential mortgage lending by borrower type, December 2015 – December 2020 (published March 2021).

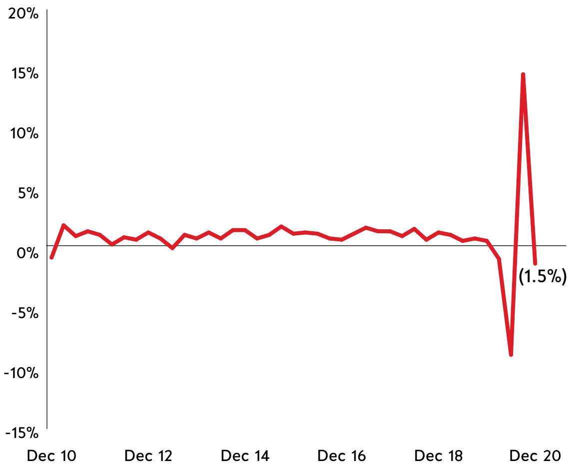
59. Residential mortgage lending, RBNZ C32 New and existing residential mortgage lending by payment type, December 2016 – December 2020 (published February 2021).
60. Financial Stability Report (November 2017) https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Financial%20stability%20reports/2017/fsr-nov-2017.pdf?revision=4dab946c-be9f-41f8-bb8c-338ab221c82e.
61. Financial Stability Report (May 2018) https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Financial%20stability%20reports/2018/fsr-may-2018.pdf?revision=17c80a71-1971-40e6-80ea-9b0a35afe358.
62. Land information New Zealand – https://www.linz.govt.nz/overseas-investment/about-overseas-investment-office/legislation-ministers-delegated-powers/overseas-investment-amendment-act-2018 (accessed 17 February 2021).
63. Financial Stability Report, RBNZ (released November 2019) – https://www.rbnz.govt.nz/financial-stability/financial-stability-report/fsr-november-2019

Macroeconomic environment

A number of economic factors are considered by Pepper Money as supportive of the New Zealand residential home loan market, including:

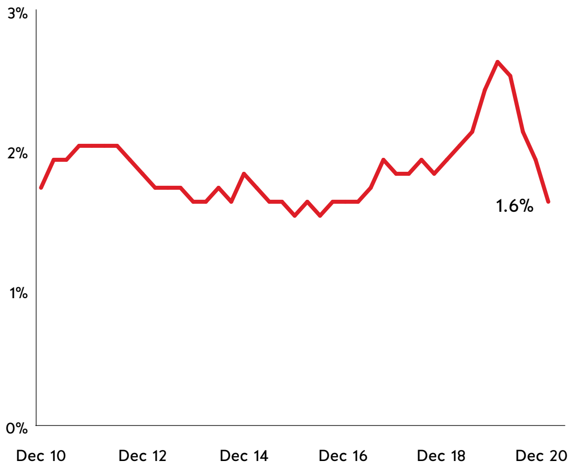
- **economic growth:** the New Zealand economy delivered nine years of consecutive annual growth up until the June 2020 quarter when it was impacted by COVID-19[64]. As illustrated in Figure 20, the New Zealand economy recovered in the September 2020 quarter, although it experienced a decline in the December 2020 quarter;
- **wage growth:** as illustrated in Figure 21, wage growth for the year to 31 December 2020 was 1.6%;
- **population growth:** as illustrated in Figure 22, New Zealand's population has grown by 17% from December 2010 to December 2020, with immigration the main driver of growth[65];
- **unemployment rate:** as illustrated in Figure 23, the New Zealand unemployment rate spiked in the September 2020 quarter but has since declined to 4.9% for the quarter of December 2020;
- **housing market:** as illustrated in Figure 24, house prices have generally performed positively over the last 10 years, with the house price index in New Zealand increasing at a CAGR of 6.8% between December 2010 and September 2020. Further, the outlook for the New Zealand housing market appears promising, with Westpac New Zealand's Chief Economist, Dominick Stephens, forecasting a peak of 16% annual house price inflation in June 2021 and a full-year increase over 2021 of 12.2%[66];
- **RBNZ cash rates:** as illustrated in Figure 25, the RBNZ has an expansionary monetary policy stance with the New Zealand cash rate at 0.25% in February 2021. The Monetary Policy Committee agreed that it "remains prepared to provide additional monetary stimulus if necessary and noted that the operational work to enable the official cash rate to be taken negative if required is now completed"[67]; and
- **LVR restrictions:** from March 2021, RBNZ will be introducing restrictions on the maximum proportion of new lending at LVRs above certain thresholds to reduce the risks to financial stability caused by higher-risk lending (refer to Section 2.6.2 for more detail).

Figure 20: Real GDP growth, quarter ended (%)



Source: Real GDP growth (seasonally adjusted), RBNZ M5 Expenditure based Gross Domestic Product, December 2010 – December 2020 (released March 2021).

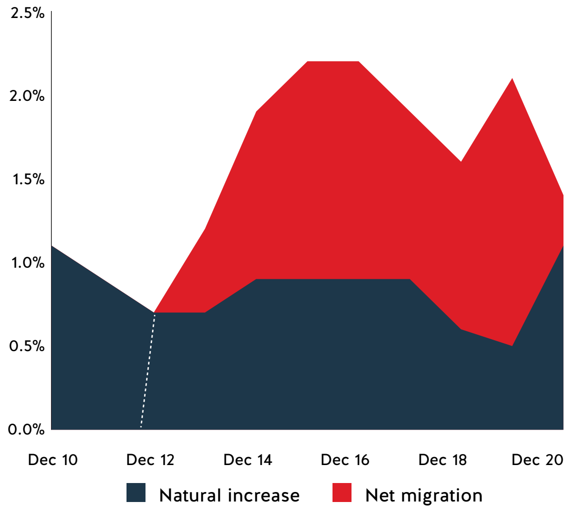
Figure 21: Wage growth, year ended (%)



Source: Labour Cost Index, RBNZ M9 Labour Market, December 2010 – December 2020 (released February 2021).

64. Real GDP growth (seasonally adjusted), RBNZ M5 Gross Domestic Product, December 2010 – December 2020 (released March 2021).
65. Estimated resident population and net overseas migration, RBNZ M12 Population and Migration, December 2009 – December 2020 (released February 2021).
66. Westpac NZ Home Truths – The rise and rise of New Zealand house prices. (released 4 December 2020) NZ_Home_Truths_December_2020.pdf (interest.co.nz).
67. Prolonged Monetary Stimulus Necessary, RBNZ (published 24 February 2021). https://www.rbnz.govt.nz/news/2021/02/prolonged-monetary-stimulus-necessary.

Figure 22: Population growth, year ended (%)



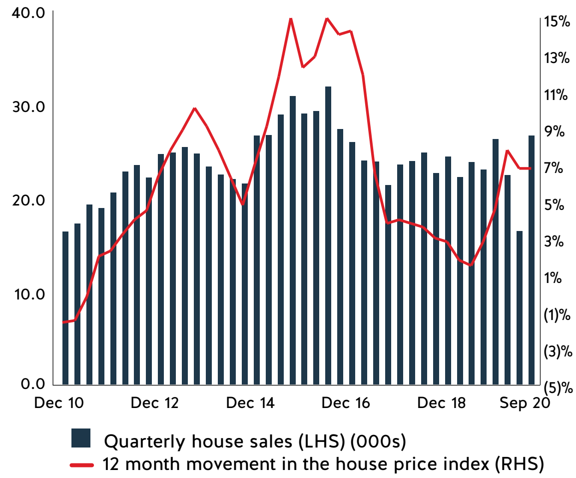
Source: Estimated resident population and net overseas migration, RBNZ M12 Population and Migration, December 2010 – December 2020 (released February 2021). Natural increase calculated as change in total population, less change due to net migration.

Note: New Zealand experienced negative net migration from December 2010 to December 2012.

Figure 23: New Zealand unemployment rate (%)

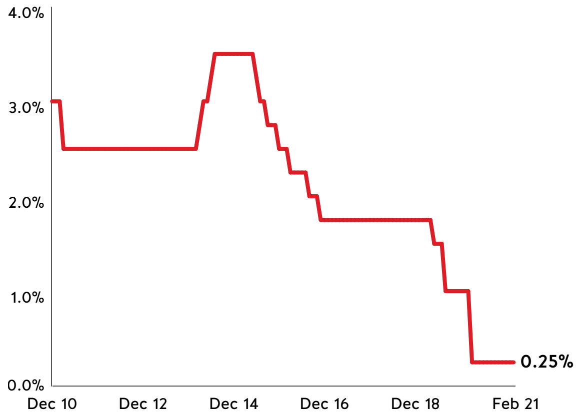
Source: Unemployment rate (seasonally adjusted), RBNZ M9 Labour Market, December 2010 – December 2020 (released February 2021).

Figure 24: House price index and house sales



Source: House price index and quarterly house sales, RBNZ M10 Housing, December 2010 – September 2020 (released March 2021).

Figure 25: RBNZ cash rate (%)



Source: Official Cash Rate, RBNZ B2 Monthly Wholesale Interest Rates, December 2010 – February 2021 (released March 2021).

2.2.2.2 Overview of products

Products offered in the New Zealand residential home loan market exhibit similar characteristics to those offered in the Australian residential home loan market (refer to Section 2.2.1.2). The primary product-related difference between the two markets is the prevalence of fixed rate loans in the New Zealand market. As at December 2020, 86% of the ADI residential home loan market in New Zealand was fixed rate[68]. By comparison fixed rate loans represent approximately 30% of the Australian residential home loan market[69]. Pepper Money currently only offers variable rate loans in Australia, but currently offers variable and fixed rate loans in New Zealand.

68. RBNZ S33 Banks: Assets – Loans fully secured by residential mortgage by repricing, November 2020 (released January 2021).
69. Based on total market credit outstanding as at 31 December 2020. Source: Total housing credit, RBA D2 Lending and credit aggregates (including owner-occupier housing credit and investor housing credit), December 2020 (released January 2021).

2.2.2.3 Competitive environment

The New Zealand home loan market shares similar operating conditions with the Australian market in that both are predominately serviced by the Major Australian Banks. As at 30 September 2020, subsidiaries of the Major Australian Banks accounted for 86% of home loan lending in New Zealand[70]. Outside of the Australian Major Bank subsidiaries, Kiwibank is the only lender to have over 5% market share[71]. Other active participants in the Australian home loan market that also have a presence in New Zealand include ING, HSBC and Non-Bank Lenders Liberty and Resimac.

Distribution in New Zealand is through a combination of "direct to lender" channels and "Mortgage Advisers"[72], with Mortgage Advisers originating approximately 40% of New Zealand residential home loans[73].

2.2.3 Australian commercial real estate loans

2.2.3.1 Overview of the market

The Australian Commercial Real Estate ("**CRE**") loan market includes lending for the development of or investment in CRE. The Australian CRE market is very broad, with customer commitments typically ranging from $0.5 million to greater than $500 million.

Within the broader CRE loan market, Pepper Money has a target market in small balance CRE, with customer commitments typically less than $1 million and with a maximum exposure of $5 million[74].

This segment of the market is focused on smaller warehouses and other business premises (such as small retail spaces, offices and showrooms), together with mixed-use real estate.

2.2.3.2 Overview of products

Products offered in the CRE market are characterised by the same features as the products offered in the Australian residential home loan market (refer to Section 2.2.1.2) with the primary differences being the classification of customers and product payment structure. Pepper's focus on underserved customers means Pepper does not offer all the CRE products available in the market, which includes the non-exhaustive list:

- CRE customer classification:
  - **investors:** real estate purchase with rental income contributing to a portion of the loan being repaid over time;
  - **owner-occupiers:** real estate purchase, construction and/or renovation where the borrower occupies the premises with the purpose of running their business operations, with the loan repaid over time from the occupying business' income; and
  - **developers:** real estate construction and/or renovation with the loan repaid from property sale proceeds.
- CRE product payment structures:
  - **principal and interest:** the repayments made by the customer are equal to the interest payable on the loan plus an amount of the loan principal outstanding;
  - **interest only:** repayments made by the customer are equal to the interest payable on the loan for a set term prior to converting to principal and interest for the remainder of the loan term; and
  - **construction:** repayments made by the customer are equal to the interest payable on the loan for a set term with the loan principal repaid from security property sale proceeds.

2.2.3.3 Competitive environment

A number of the participants in the Australian CRE market are also participants in the Australian residential home loan market (refer to Section 2.2.1.3). Participants in both markets include the Major Australian Banks, Regional Banks and certain Non-Bank Lenders such as Liberty and La Trobe.

70. Bank housing loans, RBNZ bank dashboard asset quality, September 2020; Sector housing lending, RBNZ C5 Sector lending (registered banks and non-bank lending institutions), September 2020 (published January 2021).
71. Bank housing loans, RBNZ bank dashboard asset quality, September 2020; Sector housing lending, RBNZ C5 Sector lending (registered banks and non-bank lending institutions), September 2020 (published January 2021).
72. Mortgage Advisers help customers source a loan from a panel of lenders, similar to a mortgage broker in Australia.
73. Mortgage brokers, https://www.consumer.org.nz/articles/mortgage-brokers (accessed 1 March 2021).
74. As at 31 December 2020.

2.3 Asset finance

2.3.1 Overview of the Australian market

The asset finance industry in Australia relates to the provision of finance to help consumer and commercial customers purchase assets such as motor vehicles, bikes, recreational vehicles, equipment and machinery.

The market can be segmented into two main categories:

- **Consumer:** primarily relates to consumer finance for new and used motor vehicles, and other road vehicles such as caravans, motorcycles and marine; and
- **Commercial:** primarily relates to financing for small to medium enterprises ("**SMEs**"), corporates and government for the purchase of equipment, including cars, commercial vehicles and other business equipment.

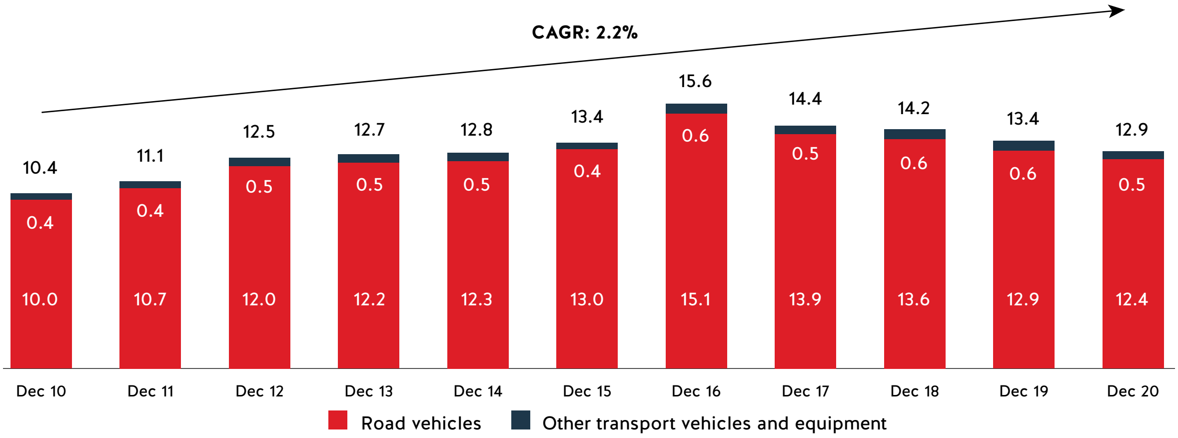
2.3.1.1 Consumer Asset Finance market

The size of the Australian Consumer Asset Finance market can be measured as the principal outstanding on loans for vehicle purchase for households, which is estimated to be $52 billion as at December 2020[75].

Another measure of the size of the Australian Consumer Asset Finance industry segment is the value of new loan commitments per annum. As illustrated in Figure 26, new loan commitments for consumer vehicle and transport equipment financing totalled $13 billion for the 12 months to 31 December 2020[76].

The Consumer Asset Finance industry is supported by the strong performance of the Australian economy, consumer spending and motor vehicle demand. Although there has been a decline in new loan commitments in the last five years, the current annual level reflects a 10-year CAGR of 2.2%[77].

Figure 26: Australian consumer vehicle and transport equipment financing ($ billion p.a.)

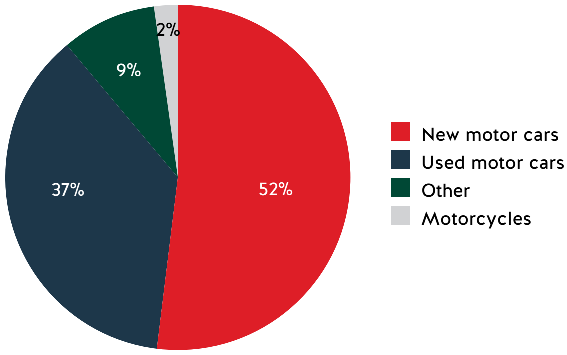


Source: Personal finance, ABS 5601.0 Lending indicators Table 27 new loan commitments, December 2010 – December 2020 (released February 2021).

75. New household loan commitments for purchase of road vehicles, other transport vehicles and equipment, ABS 5601.0 Lending indicators Table 27, November 2019 – October 2020 (released February 2021). Assumes market size is approximately 4x lending commitments for last 12 months.
76. New household loan commitments for purchase of road vehicles, other transport vehicles and equipment, ABS 5601.0 Lending indicators Table 27, November 2019 – October 2020 (released February 2021).
77. Personal finance, ABS 5601.0 Lending indicators Table 27 new loan commitments, December 2010 – December 2020 (released February 2021).

As illustrated in Figure 27, new loan commitments for Consumer Asset Finance are allocated across new motor cars, used motor cars, motorcycles and other vehicles. Pepper Money primarily serves the used vehicle segment, supplemented by specific opportunities and partnerships in other segments[78].

Figure 27: Composition of Australian consumer vehicle and transport equipment financing (new loan commitments for the 12 months to November 2018)



Source: Motor vehicle finance, ABS 5671.0 Lending finance Table 9 finance commitments, November 2018 (released January 2019).
Note: Following the November 2018 series, the ABS ceased publication of this data set following the November 2018 release, with updated data not available.

2.3.1.2 Commercial Asset Finance market

While there is no publicly available source estimating the total market size, ABS reported $3 billion commercial finance commitments were made in November 2018, or $37 billion in the 12 months to November 2018[79] (the last month before the data series was discontinued). Pepper Money believes there continues to be a sizeable market in the Commercial Asset Finance sector.

2.3.2 Overview of asset finance products

Table 4 below provides an overview of the main products offered in the asset finance market.

Table 4: Asset finance products

Product	Description
Consumer loan	The lender provides the customer with a loan for the purchase of a motor vehicle or other assets for personal use. The loan can be secured against the financed asset or unsecured.
Chattel mortgage	The lender provides the customer with a loan for the purchase of a motor vehicle or equipment. The loan is secured against the financed equipment. There may be tax advantages for customers that utilise a cash accounting method, with GST on purchases potentially claimable.
Commercial hire purchase	The lender purchases the equipment on behalf of the customer, with the customer making instalment payments in exchange for use of the equipment and eventual ownership. The customer may be able to claim equipment depreciation and running costs and interest paid as a tax deduction.
Finance lease	The lender purchases the equipment on behalf of the customer, with the customer making lease payments in exchange for use of the equipment. The customer purchases or disposes of the equipment at the end of the contractual term and is responsible for ensuring the residual value is paid. A specialised finance lease product offered in the Australian market is a novated lease. Novated leases are predominantly used in healthcare and government sectors for financing motor vehicles, with the employer structuring the lease repayments as part of the employee's pre-tax remuneration.

78. Refer to Section 3.4.2.4 for a summary of Pepper Money's Asset Finance portfolio.
79. Commercial finance, ABS 5671.0 Lending Finance, Table 6, November 2018 (released January 2019).

Product	Description
Operating lease	The lender purchases the equipment on behalf of the customer, with the customer making lease payments in exchange for use of the equipment. The customer has options at the end of the contractual term, including handing back the equipment, purchasing or continuing to pay for use. The lender accepts the residual value risk on the equipment.

2.3.3 Competitive environment

The consumer and commercial segments of the asset finance industry have different competitive dynamics, driven by different market participants and participant risk appetite, alongside other factors.

Pepper Money categorises participants in Consumer Asset Finance as follows:

- **Australian Bank Lenders:** such as Macquarie and Westpac (including its subsidiary St. George) focus on the new car segment. Australian Bank Lenders generally distribute loans through arrangements with dealerships, finance brokers and other intermediaries (for example, financing novated lease providers). It is common for Australian Bank Lenders to offer dealerships bailment and/or floorplan finance as part of a broader financing relationship;
- **Non-Bank Lenders:** such as Pepper Money, Liberty, Latitude Finance Australia ("**Latitude**"), Metro Finance Pty Ltd ("**Metro Finance**") and Money3 Corporation ("**Money3**") focus on the used car and new car segments. Non-Bank Lenders adopt a more dynamic risk-based approach to pricing and lend to a broader cross-section of the credit risk spectrum;
- **captive financiers:** such as Toyota Finance Australia Limited ("**Toyota Finance**"), BMW Financial Services ("**BMW**"), Volkswagen Financial Services Australia ("**VWFS**"), Nissan Financial Services ("**Nissan**") and Mercedes-Benz Financial Services Australia Pty Ltd ("**Mercedes-Benz Financial**") provide financing options for their own and other manufacturers' vehicles; and
- **novated lease providers:** such as SmartGroup Corporation Limited ("**SmartGroup**") and McMillian Shakespeare Limited ("**McMillian**") provide novated leases to customers through agreements with their employers. These companies generally act as finance distributors, with the loan provided by an alternative funder.

Pepper Money categorises participants in Commercial Asset Finance as follows:

- **Major Australian Banks:** distribution channels provide the Major Australian Banks access to a broad range of customers (from SMEs to large corporates) across different product structures;
- **Regional Banks:** such as Bank of Queensland finance a range of commercial assets across a range of specialist industries (for example, doctors and dentists);
- **captive financiers:** such as Toyota Finance provide financing for vehicles. Fuji Xerox Australia Limited ("**Fuji Xerox**"), CNH Industrial Capital Australia Pty Limited ("**CNH Industrial**") and Komatsu Australia Pty Limited ("**Komatsu**") provide financing for office, construction or other commercial equipment; and
- **non-bank/specialty finance lenders:** such as Metro Finance and FlexiCommercial, offer equipment finance products, often with a focus on smaller-value equipment purchases for SMEs.

2.3.3.1 Distribution models

Channel	Customers serviced	Description
Direct	Consumer SME Corporate	The lender promotes the offer of finance directly to the end customer (including online advertising and through more traditional media forms; for example, radio and TV).
Broker	Consumer SME Corporate	Brokers either have (i) a relationship with motor vehicle and equipment finance providers who provide the broker with an introduction to a customer looking to purchase a vehicle or piece of equipment; or (ii) a direct relationship with the customer looking to purchase a motor vehicle or piece of equipment. The broker acts on behalf of the customer to obtain a suitable finance product for their needs from a panel of lenders. Approximately 67% of equipment finance is distributed through brokers[80].
Dealer	Consumer SME Corporate	Motor vehicle dealers provide point-of-sale finance for purchases of new and used motor vehicles. Most car dealers operate under the National Consumer Credit Protection Point of Sale ("**NCCP POS**") exemption and therefore do not engage as credit representatives and instead forward or process loans to underwriting lenders. The NCCP POS exemption is likely to be removed, following the outcome of the Financial Services Royal Commission (refer to Section 2.5.1). While this may impact broader industry activity, Pepper Money does not believe changes to the NCCP POS exemption will materially impact the business or its ability to originate new loans through this channel. Lenders generally differ by new and used classification: • for new cars, captive financiers and Australian Bank Lenders are the primary providers of finance; and • for used cars, Australian Bank Lenders, Non-Bank Lenders and specialty finance providers are the primary providers of finance.
Equipment finance captives and independent vendor financiers	SME Corporate Government	Office, commercial and construction equipment manufacturers offer financing solutions for their own products as part of their service offering. Financing will either be provided by the manufacturer itself (or a related company, structured as the financing arm for that manufacturer) or an independent vendor financier on behalf of the manufacturer.
Salary packaging	Consumer (through the employer)	Novated lease providers form relationships with employers, allowing employers to offer motor vehicle novated leasing products to employees as part of their remuneration package.

2.3.3.2 Funding models

Industry participants generally utilise wholesale debt financing, warehouse funding and securitisation markets to fund finance products to customers, with different competitors adopting different models.

Non-Bank Lenders (and some bank lenders such as Macquarie) access securitisation markets through the issuance of asset-backed securities ("**ABS**").

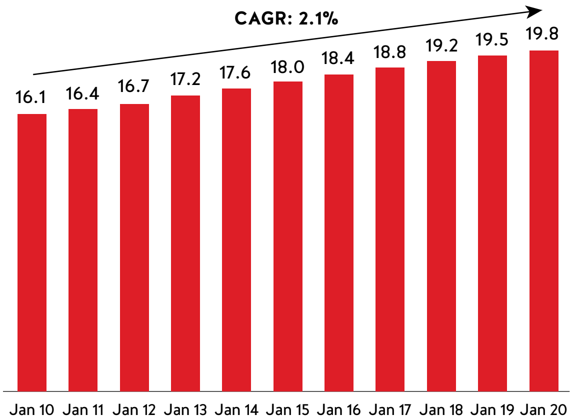
80. Proportion of equipment finance sourced through brokers, Commercial & Asset Finance Brokers Association of Australia submission to the Productivity Commission: Competition in the Australian Financial System, research published by East & Partners in 2017.

2.3.4 Key trends in the asset finance market

2.3.4.1 Car sales and vehicle registrations

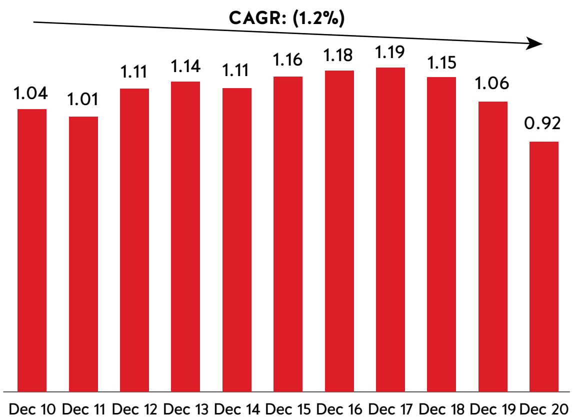
As illustrated in Figure 28 below, the number of motor vehicle registrations in Australia has increased consistently over the last 10 years to 19.8 million, with a CAGR of 2.1%. Despite this, as illustrated in Figure 29, the number of annual new vehicle sales has declined in recent years, with 916,968 new cars sold in CY2020.

Figure 28: Total motor vehicle registrations (number of vehicles, million)



Source: Australian vehicle registrations, ABS 9309.0 Motor vehicle census, January 2010 – January 2020 (released May 2020).

Figure 29: New motor vehicle sales (number of vehicles, million)



Source: Australian new motor vehicle sales, Federal Chamber of Automotive Industries, December 2010 – December 2020 (released January 2021).

The level of new car sales is a key driver of vehicle finance commitments with 90% of all consumer car sales arranged through finance, of which 39% are financed through a dealership and 61% are financed through other sources[81]. The decline in new car sales has had a negative impact on several participants in the asset finance industry that focus on financing new cars.

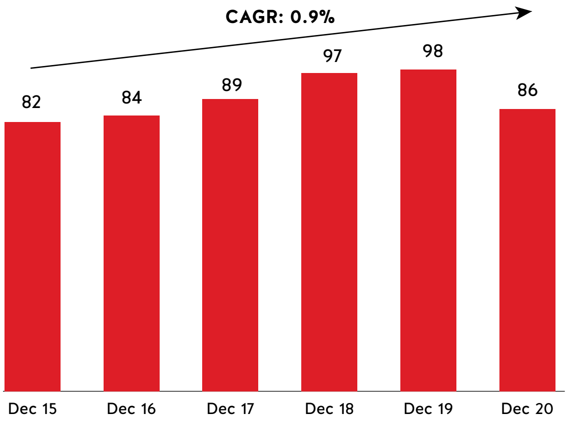
The level of used car sales in Australia is not publicly reported in Australia, however it was estimated to be approximately three million vehicles in 2015 by one of Australia's largest automotive remarketing services, Manheim Auctions[82].

2.3.4.2 Level of business investment

As illustrated in Figure 30 below, the level of annual non-mining business investment in Australia has increased from $82 billion in the year to December 2015 to $86 billion in the year to December 2020, with slower investments in 2020 offsetting a stronger growth trajectory up to 2019. As illustrated in Figure 31, capital expenditure on equipment, plant and machinery accounted for $47 billion of business investment for the year to December 2020. While the trend in overall business investment reflects the overall confidence in the overall business conditions (also reflected in the index shown in Figure 32), Pepper Money expects the total addressable market in commercial equipment finance to be more closely correlated with the spend on equipment, plant and machinery.

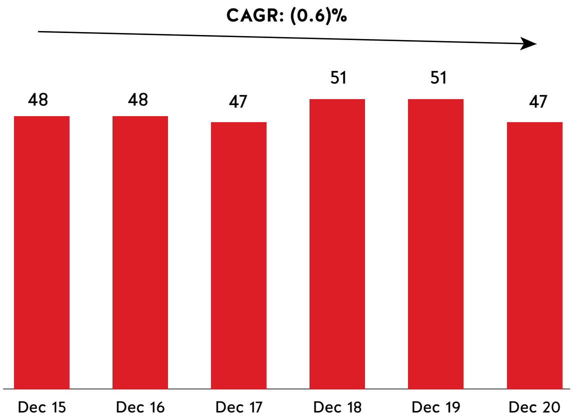
81. Sources of consumer car finance, Financial Services Royal Commission Background Paper 3: Some Features of Car Financing in Australia (published 9 March 2018).
82. Used car sales in Australia, Manheim 2015 Used Car Market Report (published 2015). http://www.niada.com/uploads/dynamic_areas/tRRIH6fX2WoqiCcaonlq/33/2015ManheimUsedCarMarketReport.pdf.

Figure 30: Annual Australian business investment excluding mining ($ billion)



Source: Total annual non-mining Australian business investment, ABS Private New Capital Expenditure and Expected Expenditure Table 1 actual expenditure, December 2015 – December 2020 (released February 2021).

Figure 31: Annual Australian capital expenditure on equipment, plant and machinery excluding mining ($ billion)



Source: Total annual non-mining Australian business investment in plant, property and equipment, ABS Private New Capital Expenditure and Expected Expenditure Table 1 actual expenditure, December 2015 – December 2020 (released February 2021).

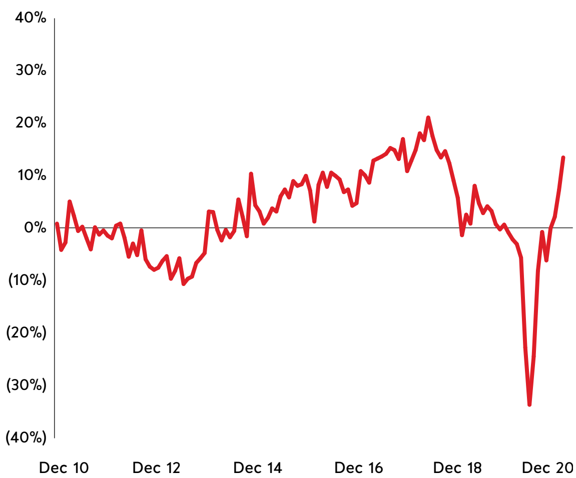
2.3.4.3 Macroeconomic environment

As detailed in Section 2.3.4, there are a number of economic factors, including economic growth, wage growth, population growth and low unemployment rates that support growth in the Asset Finance market.

In addition, the levels of business confidence and consumer sentiment are indicators for growth in the Asset Finance market:

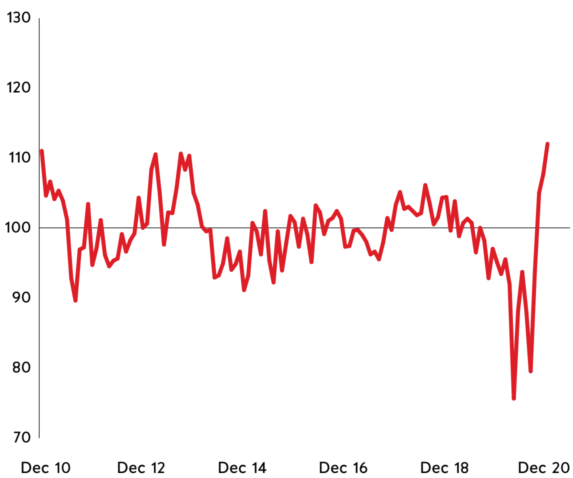
- Figure 32 illustrates NAB's business conditions index in Australia from December 2010 to December 2020. The index appears to have recovered, after declining between mid-2018 and 2019, and significantly in early to mid-2020[83]; and
- Figure 33 illustrates Westpac's consumer sentiment index in Australia from December 2010 to December 2020. Recent significant growth in consumer sentiment to above 100 since October 2020 reflects the severity of the preceding contractions, continued decline in the unemployment rate and continued success in managing the COVID-19 pandemic[84].

Figure 32: Business conditions



Source: NAB business conditions index, RBA H3 Monthly activity indicators, December 2010 – December 2020 (published January 2021).

Figure 33: Consumer sentiment



Source: Westpac and Melbourne Institute consumer sentiment index, RBA H3 Monthly activity indicators, December 2010 – December 2020 (published January 2021).

83. NAB business conditions index, RBA H3 Monthly activity indicators, December 2010 – December 2020 (published January 2021).
84. Leading Index remains strong, Westpac Bulletin (published 17 February 2021).

2.3.4.4 Technology and data developments

It has been observed that digital tools such as Application Programming Interfaces ("**APIs**"), Artificial Intelligence ("**AI**") robots and mobile applications will continue to replace legacy, paper-based, labour intensive and time-consuming lending processes. These developments are expected to improve customer experience, decrease approval times and reduce compliance risk.

The quantity and breadth of data available to industry participants has increased significantly over recent years. This trend is expected to continue, driven in part by the introduction of CCR in 2018 and Open Banking in 2020 (refer to Section 2.6.1).

The Australian Competition and Consumer Commission ("**ACCC**") expects that comprehensive credit reporting will improve a customer's ability to compare and switch products which will result in more competitive pricing and increased product innovation[85].

2.3.4.5 Changes in the competitive landscape for Consumer Asset Finance

Over the last decade there has been consolidation among some of the larger Consumer Asset Finance providers, including:

- **April 2010:** Macquarie acquired a portfolio of approximately 60,000 retail auto leases and loans from GMAC Australia, with the portfolio valued at approximately $1 billion[86];
- **October 2013:** Westpac acquired select businesses of Lloyd's Banking Group Australia, including Capital Finance. The asset acquired included a motor vehicle finance book of $3.9 billion and equipment finance book of $2.9 billion[87];
- **October 2015:** Macquarie acquired ANZ's Esanda Dealer Finance portfolio which had net lending assets with a book value of $7.8 billion[88]; and
- **March 2018:** ANZ Bank suspended its retail asset finance business[89].
- **May 2020:** Westpac announced its intention to divest its auto finance business[90]

Pepper Money believes that the above transactions and announcements have provided an opportunity for new competitors, such as Pepper Money, to offer an alternative solution to the used and new car finance markets.

2.3.5 Examples of underserved customer segments

Pepper Money believes there are a number of different segments within the Australian Asset Finance market that have been underserved, including financing for used cars and leisure vehicles.

Used car market

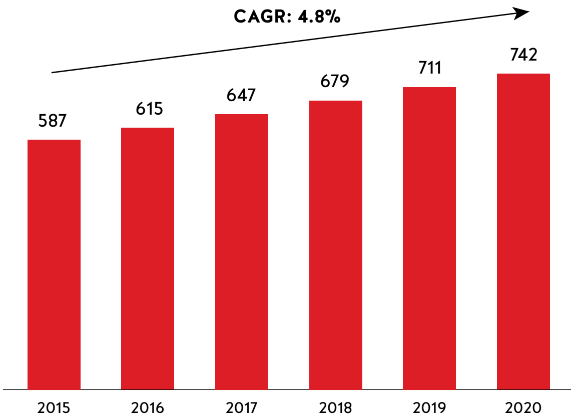
The car finance market in Australia has been dominated by the financing of new cars, representing approximately 58% of total motor vehicle finance commitments[91]. The used car finance market is smaller in size, despite approximately three times as many used cars than new cars being sold in Australia each year[92].

Leisure vehicles

The leisure vehicle finance market in Australia is predominately comprised of finance for caravans and campervans. As illustrated in Figure 34, the number of registered caravans and campervans in Australia has grown at 4.8% per annum over the last five years to 742,000 as at 31 December 2020. The increased level of leisure vehicle registrations is driven by the increased popularity of caravan and camping holidays in Australia and the increasing number of older, non-working Australians[93].

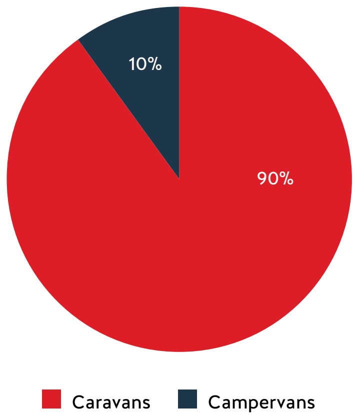
85. Consumer Data Right timeline update, Australian Competition and Consumer Commission (published 20 December 2019) https://www.accc.gov.au/media-release/consumer-data-right-timeline-update.
86. https://www.macquarie.com/au/about/newsroom/2010/20100430c.html.
87. https://www.westpac.com.au/about-westpac/media/media-releases/2013/11-october/.
88. https://www.macquarie.com/au/about/newsroom/2015/macquarie-esanda-and-outlook-update.
89. https://www.smh.com.au/business/banking-and-finance/anz-bank-to-suspend-retail-asset-finance-business-20180316-p4z4rr.html.
90. https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/media/WBC_1H20_Media_Release.pdf.
91. Motor vehicle finance, ABS 5671.0 Lending finance Table 9 – finance commitments, November 2018 (published January 2019).
92. Used car sales in Australia, Manheim – 2015 Used Car Market Report (published 2015). http://www.niada.com/uploads/dynamic_areas/tRRIH6fX2WoqiCcaonIq/33/2015ManheimUsedCarMarketReport.pdf.
93. Popularity of caravan and camping holidays, Caravan Institute Association of Australia – New figures reveal domestic caravan and camping trips increase in popularity (published 18 July 2019).

Figure 34: Campervan and Caravan Registrations ('000)



Source: Campervan and Caravan Registrations, Caravan Industry Association of Australia (CIAA) motor vehicle census stats, December 2013 – December 2020 (accessed February 2021).

Figure 35: 2019 registrations



Source: Caravan registrations, ABS 9309.0 Motor vehicle census, January 2020 (published May 2020). Campervan and Caravan Registrations, Caravan Industry Association of Australia (CIAA) motor vehicle census stats, December 2020 (accessed February 2021).

2.4 Loan servicing

2.4.1 Overview of the Australian market

The Australian third-party loan servicing market is relatively less developed than international outsourced loan servicing markets. The Major Australian Banks, Regional Banks and most Non-Bank Lenders typically service their own originated loan portfolios.

Loan servicing involves the management and administration of loans including customer service, collection of payments, remittance of payments to securitisation vehicles, maintenance of payment records and loan balances and the management of arrears from early stage delinquencies through to repossessions.

Pepper Money sees servicing arrangements generated through Whole Loan Sales (where the funder sells loans on a "servicing retained" basis) as the key source of new third-party loan servicing opportunities.

Historically, outsourced loan servicing in Australia has become more prevalent during times of increased financial stress. For example, from 2008 to 2010, Pepper Money was appointed to service loan portfolios originated by other lenders having aggregate balances of approximately $3.74 billion. Pepper Money was appointed by banks and other creditors of warehouse funding vehicles where the original lender (and then current servicer) had ceased operations. More recently, the emergence of neo banks and other fintech lenders has created an opportunity for loan servicers to potentially provide outsourced servicing arrangements to these participants.

2.4.2 Competitive environment

Pepper Money sees its key competition in the Australian third-party loan servicing market as participants who have decided to service their own portfolio rather than appoint an external third-party servicer. Pepper Money also recognises AMAL Asset Management, a specialist loan servicer of residential and commercial mortgages with $9 billion funds under administration across Australia and New Zealand, as the most significant competitor as an external third-party servicer.

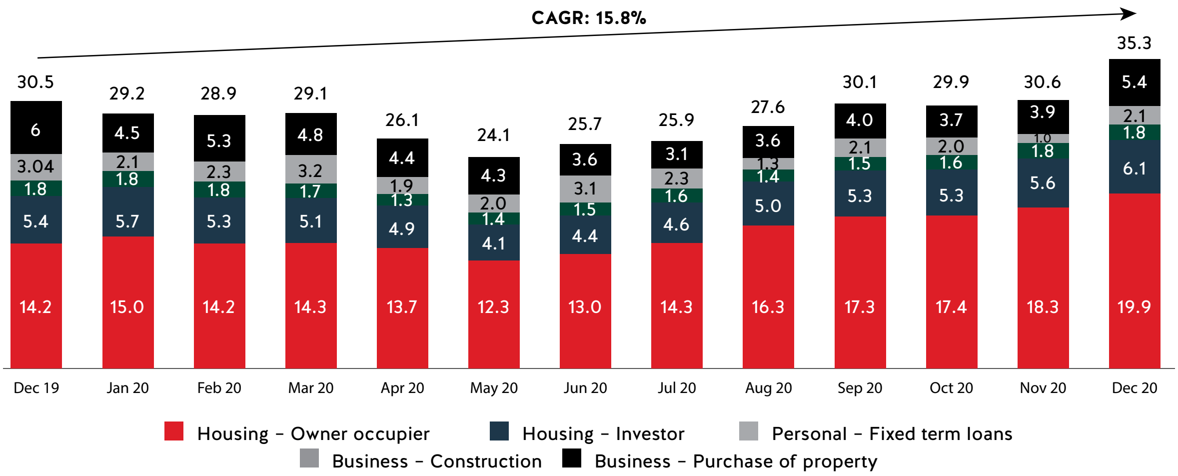
2.5 Impacts of COVID-19 on financial services

Following the World Health Organisation's ("**WHO**") declaration of a global pandemic on 11 March 2020, known as COVID-19, the Australian Government responded by implementing restrictions on international and domestic travel, social distancing requirements, restricted trading conditions for businesses and deliberate closure of non-essential parts of the economy during lockdowns to curb the community transmission of COVID-19. As a result, Australia entered its first recession in the quarter ending June 2020[94] with unemployment peaking at 7.5% in July 2020[95].

94. Real GDP growth (seasonally adjusted), RBA H1 Gross domestic product and income, December 2010 – September 2020 (released December 2020).
95. Unemployment rate (seasonally adjusted), RBA H5 Labour Force, December 2010 – December 2020 (released January 2021).

In response to declining economic conditions, banks adjusted to new dynamics and explored avenues for managing and mitigating credit risk by reducing new loan volumes across the three months to May 2020. The fall in new loan commitments also reflects the lockdown restrictions imposed across March-May 2020 and social distancing restrictions resulted in the banning of open homes and on-site auctions. As restrictions eased and the economy recovered, Figure 36 illustrates the rebound in new loan commitments issued in the market.

Figure 36: New borrower-accepted loan commitments (seasonally adjusted) ($ billion)



Source: ABS 5601.0 Lending indicators, December 2019 – December 2020 (published February 2021). Seasonal adjustment is a means of removing the estimated effects of normal seasonal variation and 'trading day effects'.

Economic recovery has been supported by Australian government initiatives including a stimulus package of $279 billion[96] (14% of GDP)[97] covering a broad range of initiatives for individuals, companies and key impacted sectors. The $90 billion JobKeeper[98] program was established to provide employment-related relief for businesses and not-for-profit organisations significantly affected by COVID-19 to keep more Australians employed[99] during this period. This initiative ended on 28 March 2021[100]. Similarly, the Coronavirus Supplement ended on 31 March 2021[101] (however the base rate of JobSeeker increased by $50 a fortnight from 1 April after the Government phased out its Coronavirus Supplement). An additional support measure implemented was the instant asset write-off, whereby businesses can (subject to certain restrictions) claim an immediate tax deduction of up to $150,000 per asset, for assets that are first used between 12 March 2020 and 30 June 2021 (and purchased by 31 December 2020), to boost cash flow for employers.[102] These policies have supported employment and consumer spending in the economy.

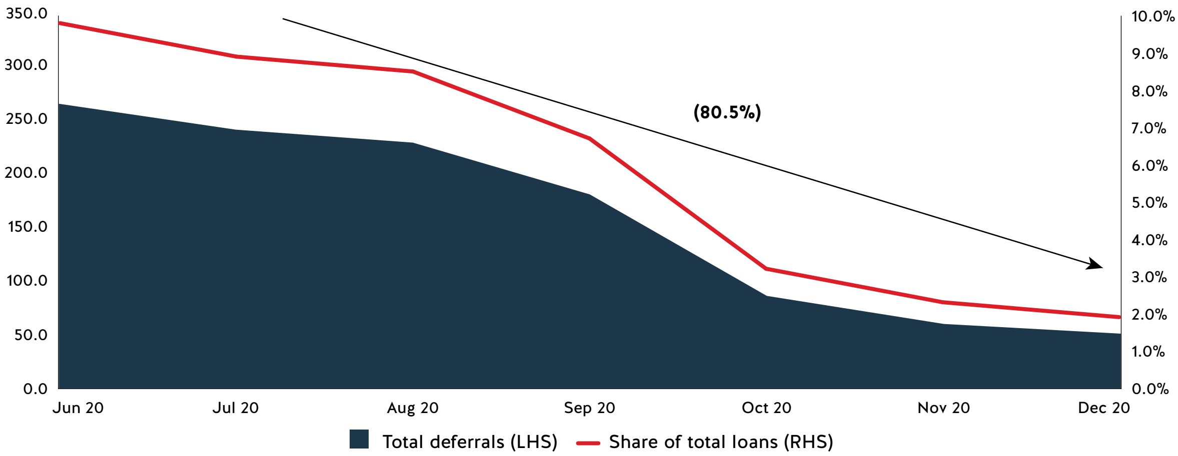
In addition, the Reserve Bank of Australia has been active in the purchase of Australian Government Securities and semi-government securities to support the lowering of longer-term yields, and, if required, to address market dislocations. Furthermore, the RBA introduced the below initiatives to support the economy during COVID-19:

- **19 March 2020:** a target for the yield on the 3-year Australian Government bond
- **3 November 2020:** a $100 billion bond purchase program to lower longer-term yields
- **2 February 2021:** the purchase of an additional $100 billion of government bonds under the bond purchase program by the RBA[103].

96. 320 billion estimated in March 2020, adjusted downward $40 billion due to changes in JobKeeper stimulus estimates between March 2020 and December 2020. JobKeeper Payment to Keep Australians in a Job (published 30 March 2020), Mid-Year Economic and Fiscal Outlook (published 7 August 2020). https://www.pm.gov.au/media/130-billion-jobkeeper-payment-keep-australians-job, https://budget.gov.au/2020-21/content/myefo/download/myefo-2020-21.pdf, https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/more-support-businesses-and-workers.
97. Assumes $1.94 trillion GDP, based on the government's estimate of $320 billion representing 16.4% of GDP. $130 Billion JobKeeper Payment to Keep Australians in a Job (published 30 March 2020). https://www.pm.gov.au/media/130-billion-jobkeeper-payment-keep-australians-job.
98. More Support for Businesses and Workers (published 7 August 2020). Mid-Year Economic and Fiscal Outlook 2020-21 (published 11 December 2020). https://budget.gov.au/2020-21/content/myefo/download/myefo-2020-21.pdf, https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/more-support-businesses-and-workers.
99. $130 billion JobKeeper Payment to Keep Australians in a Job, Prime Minister, Treasurer (published 30 March 2020). https://www.pm.gov.au/media/130-billion-jobkeeper-payment-keep-australians-job.
100. JobKeeper key dates, ATO (published 16 December 2020). https://www.ato.gov.au/General/JobKeeper-Payment/JobKeeper-key-dates/.
101. Important information about your income support payments, Australian Government Services Australia (published 10 November 2020). https://www.servicesaustralia.gov.au/individuals/news/important-information-about-your-income-support-payments.
102. Instant asset write-off for eligible businesses. https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/.
103. https://www.rba.gov.au/mkt-operations/government-bond-purchases.html.

According to the RBA, ADIs have performed well so far through the pandemic, cushioning (rather than amplifying) the shock by continuing to lend and supporting households and businesses. Notably, ADIs have allowed borrowers to be able to defer loan repayments for those affected by COVID-19[104]. At the peak, 10% of housing loans and 17% of SME loans had deferred repayments, representing 10% of total loans in the market as illustrated in Figure 37.

Figure 37: Total loan deferrals due to COVID-19 trend ($ billion)



Source: Temporary loan repayment deferrals due to COVID-19 backseries, APRA, December 2020.

With the economic contraction resulting from COVID-19 being less severe than initially feared, and the recovery underway, most borrowers have resumed loan repayments and only 2% of both housing and SME loans had repayment deferrals outstanding as at 31 December 2020. Further, APRA has allowed loans to otherwise current borrowers who take up COVID-19 support deferral arrangements to not be regarded as being in arrears or restructured.

To provide liquidity support for ADIs, the RBA established a $200 billion TFF. ADIs can access three-year funding at a fixed rate of 0.1% under the additional and supplementary allowances until 30 June 2021. This has assisted with supporting the supply of credit and lower interest rates for borrowers, and incentivised ADIs to continue lending. By 3 November 2020, ADIs had drawn $83 billion under the TFF[105]. The Australian Office of Financial Management ("**AOFM**") established a $15 billion Structured Finance Support Fund ("**SFSF**") to provide support to non-bank financial institutions including (non-exhaustive list) Pepper Money, Columbus Capital, Firstmac, La Trobe Financial, Liberty Financial, RedZed and Resimac through the acquisition of RMBS and ABS from issuers on new transactions, or from existing holders of such securities in order for those holders to have greater capacity to invest in new transactions. In addition, the AOFM established a separate program where participating lenders could obtain funding for up to 90% of missed interest payments due to borrower's being on COVID-19 hardship arrangements[106]. Refer to Section 3.9.5 for details on how this has applied to Pepper Money.

2.6 Regulatory environment

2.6.1 Australian regulatory environment

Credit providers (such as Pepper Money) conducting business in Australia are required to comply with a number of key laws, regulations and standards as described in this section.

Pepper Money is required to hold an Australian Financial Services Licence ("**AFSL**") and an ACL which are both issued by ASIC. Outside of government regulatory bodies, Pepper Money is also required, as a provider of financial services and products to customers, to be a member of independent consumer complaint bodies and submit to their jurisdictions in relation to consumer complaints. In Australia, this body is the Australian Financial Complaints Authority ("**AFCA**").

104. Banking and the COVID-19 pandemic, RBA (published 15 December 2020). https://www.rba.gov.au/speeches/2020/sp-so-2020-12-15.html.
105. Term Funding Facility – Reduction in Interest Rate to Further Support the Australian Economy, RBA (published 3 November 2020). https://www.rba.gov.au/mkt-operations/announcements/reduction-in-interest-rate-to-further-support-the-australian-economy.html.
106. Riding out the storm, Australian Securitisation Journal, Issue 18 (published July 2020). https://www.securitisation.com.au/Site/media/website/Content/2007070-ASJ-Edition-18.pdf.

Pepper Money's business activities in Australia are primarily regulated by ASIC under the *Corporations Act 2001* (Cth) ("**Corporations Act**"), the *Australian Securities and Investments Act 2001* (Cth) ("**ASIC Act**"), and the National Consumer Credit Protection Act 2009 ("**NCCP Act**") which incorporates the National Credit Code ("**NCC**"). Pepper Money is also subject to other legislation, including, but not limited to, the *Privacy Act 1998* (Cth), the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth) ("**AML/CTF Act**"), the *Competition and Consumer Act 2010* (Cth), the Privacy (Credit Reporting) Code 2014 and unfair contract terms legislation as set out in the *Australian Securities and Investments Commission Act 2001* (Cth).

Section 3 contains a number of risks that the Pepper Money business may face or be impacted by with respect to the regulatory environment in Australia.

2.6.1.1 Regulators

The regulators and dispute resolution bodies that Pepper Money primarily deals with are ASIC, AFCA and, to a lesser extent, APRA. The approach of each of these bodies is set out below.

ASIC

ASIC regulates both AFSL and ACL holders and has wide powers with respect to these licensees. Legislation that commenced in April 2019 in Australia extends the powers of ASIC to intervene and issue a "product intervention order" which may require, amongst other things, the ban or suspension of sales of a product or modification of its terms where ASIC determines that a financial product may result in significant detriment to consumers. Industry and consumer consultation must be undertaken prior to ASIC taking action under the legislation.

As a direct result of the Financial Services Royal Commission, ASIC has also clarified its enforcement strategy and has revised its approach to litigation. ASIC has stated that where they are satisfied that a breach of law is likely to have occurred and litigating the matter would be in the public interest, then they will ask themselves "why not litigate?" While this does not mean that all matters will be litigated, the result may be that there will be an increase in ASIC taking lenders and financial services providers to court.

ASIC often conducts industry reviews and recently conducted a review into the lending, default, collections and hardship practices of the motor finance industry. Pepper Money participated in this review and provided ASIC with information about its practices in this area. No findings have been publicly released with respect to the motor industry review and ASIC has indicated that it may not issue a public report (although further information on this review may be released by ASIC at some stage).

AFCA

AFCA took over as sole ombudsman in the financial services sector in November 2018. AFCA has jurisdiction to hear disputes between credit providers, financial service entities and their customers. AFCA is required to resolve these disputes by having regard to legal principles and good industry practice, but will ultimately decide a dispute based on what it considers fair in the circumstances. This means that AFCA may make an adverse finding against a member even if the member has complied with all legal requirements but AFCA determines that principles of fairness require a finding against the member.

Further, if AFCA determines that a dispute raises matters that may affect other customers, AFCA can investigate whether there is a "systemic" issue with the processes or procedures of that member. AFCA has the power to conduct investigations into potential systemic issues, may direct a member to make certain remediations or refer the matter to ASIC. This is in contrast to the prior external dispute resolution schemes which did not have this wide power. ASIC may separately investigate or take action in response to an AFCA finding of systemic issues.

APRA

There has been an expansion in APRA's powers to make rules regarding the lending activities of non-ADIs.

These amendments now enable APRA to monitor non-ADI lending practices in the mortgage and personal finance markets, and to impose penalties in relation to lending activities of non-ADI lenders (although these do not extend to mandating capital adequacy levels in relation to the lending activities of non-ADIs).

2.6.1.2 NCCP Act

The NCCP Act and the NCC regulate Pepper Money's Consumer Asset Finance and residential home loan activities.

The NCCP Act requires that Pepper Money is licensed in respect of its consumer lending activities. General obligations under the NCCP Act include:

- doing all things necessary to ensure that the credit activities authorised by the licensee are engaged in efficiently, honestly and fairly;
- having proper arrangements for conflicts of interest, staff training and competency, and adequate resources and risk management; and
- making certain disclosures to consumers.

The NCCP Act also imposes a number of obligations on licensees in relation to responsible lending. These obligations are imposed in order to ensure that licensees do not provide or suggest (or otherwise assist with) a credit contract that is unsuitable for a consumer in terms of the consumer's requirements and objectives and affordability. In order to comply, licensees must make reasonable inquiries into a borrower's financial situation and take reasonable steps to verify that financial situation. In addition, licensees must make reasonable enquiries about a customer's requirements and objectives in taking out a loan and not provide credit to a customer that is unsuitable when taking into account the customer's requirements and objectives or would cause the customer substantial hardship.

In addition, the NCCP Act requires Pepper Money to comply with conduct obligations, including with respect to responsible lending, pre-contractual disclosure, collections, enforcement, and hardship practices.

2.6.1.3 Corporations Act and ASIC Act

In Australia, Australian Financial Services Licensees are subject to conditions imposed under their licence and general obligations under the Corporations Act and ASIC Act which include:

- doing all things necessary to ensure that the financial services authorised are provided efficiently, honestly and fairly;
- having adequate resources, including financial resources, to provide the financial services covered by its licence and to carry out supervisory arrangements;
- having trained and competent representatives and monitoring their compliance with financial services laws; and
- having adequate risk management systems.

2.6.1.4 Anti-Money Laundering and Counter Terrorism Financing Act

An entity that provides "designated services" (which includes making loans) with a geographical connection to Australia is a "reporting entity" under the AML/CTF Act and must enrol with the Australian Transaction and Reports Analysis Centre ("**AUSTRAC**") and comply with the AML/CTF Act and the rules made under that legislation unless an exemption applies.

As a lender Pepper Money is a reporting entity and has obligations under the AML/CTF Act which include to:

- adopt and maintain an AML/CTF program that complies with the AML/CTF Act;
- apply Know Your Customer ("**KYC**") conventions to ensure that the identities of customers are adequately verified prior to providing them with a designated service;
- undertake ongoing customer due diligence by monitoring customers and their transactions while they remain a customer; and
- report certain matters to AUSTRAC including providing suspicious matter reports and an annual compliance report.

2.6.1.5 Privacy Act

The Privacy Act regulates the collection, use and storage of personal information which includes information about an identified individual or an individual that is reasonably identifiable (but does not include information about companies unless that information relates to an individual associated with that company (such as a Director or authorised signatory)).

The Privacy Act regulates the handling of personal information about individuals' activities in relation to consumer credit and outlines:

- the types of personal information that credit providers can disclose to a credit reporting body, for the purpose of that information being included in an individual's credit report;

- what entities can handle that information; and
- the purposes for which that information may be handled.

The Privacy Act also regulates consumer credit reporting in Australia, supported by the Privacy Regulation 2013 and the Privacy (Credit Reporting) Code 2014.

One of the objects of the Privacy Act is to facilitate an efficient credit reporting system while ensuring that the privacy of individuals is respected. Amongst other things, the Australian credit reporting system also assists credit providers to comply with their responsible lending obligations under the NCCP Act and to assess creditworthiness against their own credit policies.

Under the Privacy Act, Pepper Money has obligations with respect to the collection, use and holding of personal information, as well as in relation to data breaches and credit reporting.

2.6.1.6 Responsible lending

In recent years, responsible lending practices have been scrutinised by ASIC as to whether lenders are undergoing reasonable enquiry and reasonable verification prior to issuing loans. ASIC has been increasingly focused on:

- the extent to which licensed credit providers undertake independent verification of a potential customer's income (by way of checking payslips, tax returns, bank statements or equivalent); and
- verification of customer living expenses, including use of benchmarks such as the Household Expenditure Method ("**HEM**").

In December 2019, ASIC released an update to its regulatory guide, RG 209, setting out ASIC's views on the responsible lending obligations of the NCCP, including steps that can be taken to reduce the risk of non-compliance. The guide relates to all consumer credit and is not applicable for business or commercial lending, or loans or leases made to company borrowers.

The regulatory guide remains a principles-based document with key areas of focus being the verification of income and living expenses, the use of expense benchmarks, enquiry and verification of other existing liabilities, assessment of requirements and objectives, consideration of individual customer circumstances and practical examples of how regulated entities may meet their responsible lending obligations.

ASIC's views on responsible lending have been challenged in court with a case brought by ASIC against Westpac Banking Corporation. The first judgment was handed down on 13 August 2019 with the Federal Court finding that Westpac had not breached the responsible lending provisions of the NCCP Act. This decision was appealed by ASIC.

Following the Full Federal Court decision on 26 June 2020[107], the judgment confirmed that the NCCP gives latitude to credit licensees to determine how they should perform the assessment of suitability required by law before entering into credit contracts.

On 25 September 2020, the Government made a statement that the responsible lending obligations had become too prescriptive and restrictive and announced proposed reforms to responsible lending obligations contained in NCCP. The proposed reforms will amend the obligations that apply before entry into a credit product or the provision of credit assistance. ASIC's guidance relating to the current responsible lending obligations will be reviewed and updated when the proposed reforms are finalised. Non-ADIs are not currently subject to APRA's lending standards however the proposed regime will adopt key elements of the APRA standards, and impose them on Non-Bank Lenders through the NCCP. This will be administered by ASIC[108]. The changes are still being considered by Parliament.

2.6.1.7 Comprehensive Credit Reporting

The Australian Government mandated the CCR regime in 2018, requiring large ADIs to provide comprehensive credit information on open and active consumer credit accounts to licensed credit reporting bodies. Since October 2018, the Major Australian Banks have experienced increasing participation in the credit reporting system pending legislation enacting the mandate, and other credit providers, including Pepper Money, have progressively implemented the CCR regime in their systems.

107. ASIC v Westpac Banking Corporation 2020 FCAFC 111.

108. Freeing up lending – overhaul of responsible lending obligations, KWM (published 25 September 2020). https://www.kwm.com/en/au/knowledge/insights/freeing-up-lending-overhaul-of-responsible-lending-obligations-20200925.

The CCR regime requires the provision of information including credit limit and repayment information history on loans and credit facilities. The information made available through CCR gives lenders such as Pepper Money access to a deeper, richer set of data and enables a better assessment of a borrower's creditworthiness, repayment ability and to develop a more comprehensive view of the consumer's credit history and profile.

2.6.1.8 Consumer Data Right (Open Banking)

In August 2019, the Australian Government passed a bill to legislate the Consumer Data Right or CDR across multiple industries. The CDR requires companies to share consumer and product data with accredited third parties and provides consumers with greater control over their data.

From July 2021, all ADIs will be required to give access to product, consumer, account, and transaction data for mortgage accounts. One expected outcome of the regime is to enable greater access (including by Non-Bank Lenders such as Pepper Money) to customer data held by ADIs, subject to certain conditions (including accreditation and sharing, on a customer's request, of specified customer data that the non-ADI entity holds in accordance with forthcoming CDR rules).

Within the mortgage industry, the CDR is expected to increase the transparency of product and service options across the industry, reduce barriers of entry, help facilitate consumer choice and assist credit providers to assess affordability.

2.6.1.9 Financial Services Royal Commission

The Financial Services Royal Commission was established by the Australian Government in December 2017 to report on financial service entities' conduct, practices, behaviour and business activities which may have amounted to misconduct or have failed to meet community standards and expectations.

The final report of the Financial Services Royal Commission included 76 recommendations across the Australian financial services sector, including changes to the roles and powers of the sector's regulators.

In August 2019, the Australian Government responded by announcing a timeline detailing its action plan in response to the recommendations of the report, intending which recommendations were to be implemented or be subjected to legislation by the end of 2020. The Australian Government released a large volume of draft legislation in February 2020. New legislation that will impact Pepper Money is discussed in the sections below.

The recommendations may pose a number of risks to Pepper Money's financial performance and business. These risks are set out in detail in Section 5.

Design and Distribution Obligations

From 1 October 2021, the Design and Distribution Obligations ("**DDO**") will require Pepper Money to design financial products that are likely to be consistent with the *likely objectives, financial situation and needs* of the consumers for whom they are intended (the target market).

DDO applies to a range of products, including the following:

- Corporations Act "financial products" such as insurance;
- credit contracts, including those regulated under the Credit Act, such as home loans and personal loans; and
- consumer leases – but only where there is a deferred debt.

DDO does not apply to credit which is wholly or predominantly for business purposes.

Pepper Money must ensure that it uses the identified target market to inform the product design and product distribution, and it must monitor and review (post-sales review) all stages of the product lifecycle.

The specific obligations that apply to Pepper Money as an issuer include requirements to:

- put in place a governance framework to ensure that compliance with DDO is embedded within the organisation;
- make a target market determination for each "financial product";
- take reasonable steps to direct distribution of the relevant product to the target market;
- review and monitor its target market determinations to ensure they remain appropriate;
- supervise distribution of its products; and
- notify ASIC of significant dealings in a product outside the target market.

If Pepper Money distributes products (either its own products or products issued by third parties) it must distribute products to the class of consumers identified as being within the target market and subject to any conditions or restrictions on distribution.

Mortgage broker best interests duty

From 1 January 2021, a best interests duty for mortgage brokers came into effect whereby mortgage brokers are legislated to have a duty to act in the best interests of their customers. There are also reforms to mortgage broker remuneration, including banning campaign and volume-based commissions and payments. A review conducted by ASIC and the Counsel of Financial Regulators is proposed in 2022 to review changes to mortgage broker remuneration and operation of upfront and trail commissions. Pepper Money distributes some of its regulated loans through mortgage brokers affected by these changes. Legislation is currently before Parliament which will extend the best interests duty (but not the conflicted remuneration rules) to all consumer finance brokers.

NCCP POS

Under the NCCP POS exemption retail dealers were able to offer credit products without being licensed or appointed as an authorised representative of the credit licensee.

The Financial Services Royal Commission recommended the removal of the POS exemption, requiring that all retail dealers either hold an ACL or be appointed as an ACR. This is likely to increase the level of regulatory oversight and compliance for retailers and car dealers.

The timing of the removal of the POS exemption is unknown. Large car dealers are likely to either obtain their own ACL or be appointed as an ACR, while smaller dealers will rely on brokers (who hold an ACL) for the provision of finance.

Other matters

As a result of the findings of the Financial Services Royal Commission other changes that may impact Pepper Money in a more minor way include the following:

- **enforceable codes:** from 1 January 2021, ASIC may, by legislative instrument, approve a code of conduct, breach which will attract a penalty (aka "enforceable codes") and may make signing up to codes mandatory;
- **reference checking protocols:** Pepper Money will be obliged to give a reference about an individual employee, if requested, where the individual is moving to a role where they will be providing credit assistance in relation to loans that will be secured by residential property; and
- **new ASIC internal dispute resolution guidance:** before 5 October 2021, Pepper Money will be required to update its internal dispute resolution guidance to accommodate the new guidance. This process has already commenced.

2.6.1.10 Change in capital requirements for ADIs

In February 2018, APRA released a discussion paper incorporating the amendments from the recently finalised Basel III reforms. APRA proposed a number of revisions to the capital framework, increasing capital requirements for ADIs to ensure they are "Unquestionably Strong". The unquestionably strong amendments required ADIs to increase minimum capital requirements by 50 basis points (i.e. 0.50%) for ADIs using the standardised approach, and 150 basis points for ADIs using the internal ratings-based ("**IRB**") approach, by 1 January 2020.

APRA has also announced proposed changes to the capital required to be held in support of specific types of residential home loans, with implementation proposed for 1 January 2023. On a relative basis, the revisions propose that less capital is required to be held against owner-occupier, principal and interest mortgages, increasing the return on regulatory capital of these products:

- **IRB Banks:** risk weighted assets ("**RWAs**") for owner-occupier, principal and interest mortgages will be 75% of the RWA for other residential mortgages, all else being equal; and
- **Standardised Banks:** RWAs for owner-occupier, principal and interest mortgages will be 5% less for LVRs less than 60% and 10% less for LVRs greater than 60%, all else being equal[109].

Pepper Money believes that the increased capital requirements for ADIs could potentially result in a net benefit to Non-Bank Lenders, such as Pepper Money, as the increased capital requirements will reduce the ADIs' return on equity for residential home loans for certain segments of the market within residential home loans.

109. APRA, Response to submissions – revisions to the capital framework for ADIs (published 12 June 2019).

2.6.1.11 Breach reporting

From 1 October 2021 as an AFSL and ACL holder, Pepper Money will need to abide by amended breach reporting obligations with respect to its AFSL, and new breach reporting obligations with respect to its ACL.

This will include reporting the following to ASIC:

- potential breach investigations that last longer than 30 days;
- serious fraud;
- gross negligence; and
- significant breaches (including those punishable by prison terms and which are contraventions of a civil penalty).

There will also be a requirement to report to ASIC other licensees who are either giving personal advice to retail clients, or who are mortgage brokers, if there are reasonable grounds to believe that a reportable breach has occurred.

2.6.2 New Zealand regulatory environment

Similarly, in New Zealand, Pepper Money is required to hold a Financial Service Provider registration issued by the Registrar of Financial Service Providers, and is a member of Financial Services Complaints Limited. Pepper ANZ operates in New Zealand as a provider of financial products and financial services (as those terms are defined in the Financial Markets Conduct Act 2013 ("**FMCA**") and Financial Service Providers (Registration and Dispute Resolution) Act 2008 ("**FSPA**")) and is therefore subject to:

- regulatory oversight of the Financial Markets Authority ("**FMA**"), which is the New Zealand Government agency responsible for financial markets regulation, including enforcing securities, financial reporting and company law as they apply to financial services and securities markets;
- a suite of statutory instruments governing the provision of financial products and financial services, particularly the FMCA, FSPA and regulatory instruments made under each of those statutes, the Credit Contracts and Consumer Finance Act 2003 ("**CCCFA**"), the Responsible Lending Code, and the Fair Trading Act 1986 ("**FTA**");
- anti-money laundering regulations in New Zealand as a 'reporting entity' under the Anti-Money Laundering and Countering the Financing of Terrorism Act 2009; and
- with respect to interested parties' (such as borrowers or guarantors) privacy, the *Privacy Act 2020* (NZ).

There are a number of other significant regulators in the New Zealand market, including:

- the Reserve Bank of New Zealand ("**RBNZ**"), which is responsible for managing monetary policy and overall price stability as well as the conduct and governance of banks, non-bank deposit-taking institutions and insurance firms; and
- Commerce Commission ("**NZ ComCom**"), which is the New Zealand competition and fair dealing regulator responsible for enforcing law relating to fair trading and consumer credit contracts across the financial services sector.

Given Pepper Money's operations in New Zealand do not include any form of deposit-taking from the public, Pepper Money is not subject to the regulatory remit of the RBNZ under its current regulatory mandate.

2.6.2.1 CCCFA and FMA

In New Zealand, similar obligations arise to those in Australia, as described above. The CCCFA aims to protect retail borrowers by mandating responsible lending, requiring disclosure of key information to borrowers and prohibiting unreasonable fees and other predatory lender conduct. This is supplemented by the semi-voluntary Responsible Lending Code. Under the CCCFA and the Responsible Lending Code, providers of consumer credit are subject to certain requirements regarding the terms of consumer credit contracts; specific form, process and context requirements; and procedures that must be followed by the creditor throughout the contract duration.

2.6.2.2 Review of the Reserve Bank of New Zealand Act

The New Zealand Government is undertaking a review of the Reserve Bank of New Zealand Act 1989 ("**RBNZ Review**"). Phase 2 of the RBNZ Review considers the prudential regulatory framework of banks and non-bank finance companies, including as to the perimeter for formal supervision by the RBNZ. An in-principle decision has been made that the dual registered bank and non-bank deposit taker scheme will be replaced by a single licensing regime similar to the Australian position for ADIs. Current proposals limit the regulatory perimeter to deposit-taking entities (which would not include Pepper Money). A second tranche of Phase 2 reforms is underway and consultation on these proposals was extended to 23 October 2020, after work was effectively paused by the need to respond to COVID-19. Final policy decisions will be taken after consideration of this consultation, followed by legislative drafting[110].

2.6.2.3 Financial Markets (Conduct of Institutions) Amendment Bill

The proposed Financial Markets (Conduct of Institutions) Bill ("**FMCA Bill**") was introduced to Parliament in December 2019[111], following the Financial Services Royal Commission.

The FMCA Bill is designed to create a licensing regime for banks, insurers and non-bank deposit takers in respect of their general conduct, including aspects of how they design and offer sales incentives, ensure fair conduct is upheld in the financial sector, make licensed entities accountable for non-advised sales by intermediaries and prohibit sales incentives based on volume targets[112].

The FMCA Bill has been through the Select Committee process and been reported back to Parliament. The FMCA Bill is now awaiting its second reading. It will then go through the Committee of the Whole House and to its third reading before being passed. The timing of these steps is not yet confirmed[113].

2.6.2.4 Financial Services Legislation Amendment Act 2019

The Financial Services Legislation Amendment Act 2019 introduced a new financial advice licensing regime (covering a broad range of financial advisers, including mortgage brokers) with the objective of improving access to quality financial advice in New Zealand[114].

The legislation includes a mandatory registration regime prior to providing advice to retail clients. The Financial Services Legislation Amendment Act 2019 came into effect on 15 March 2021[115].

2.6.2.5 Credit Contracts Legislation Amendment Act 2019

Following the Government's review of consumer credit law, the Credit Contracts Legislation Amendment Act 2019 ("**CCLAA**") was passed and a range of changes were made to related regulation and guidance. These changes were the culmination of a lengthy review of consumer lending regulation, with a particular focus on better protecting vulnerable consumers from predatory or irresponsible lending. The amendments in the CCLAA and related regulations cover consumers who have entered into a consumer credit contract and aim to:

- improve the reliability of information provided in support of a credit application;
- introduce new statutory duties to require lenders to perform appropriate due diligence to determine the suitability of products; and
- require certification of Directors and senior managers as fit and proper persons.

The changes are being progressively implemented, with the remaining changes coming into force on 1 October 2021.

110. The Reserve Bank Act Review, The Treasury (published 16 February 2021). https://www.treasury.govt.nz/news-and-events/reviews-consultation/reviewing-reserve-bank-act.
111. Financial Markets (Conduct of Institutions) Amendment Bill, New Zealand Parliament – bill history (published 11 December 2019). https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_93443/financial-markets-conduct-of-institutions-amendment-bill.
112. Conduct of financial institutions review, Ministry of Business, Innovation and Employment (published 7 August 2020). https://www.mbie.govt.nz/business-and-employment/business/financial-markets-regulation/conduct-of-financial-institutions-review/.
113. Conduct of financial institutions review, Ministry of Business, Innovation and Employment (published 7 August 2020). https://www.mbie.govt.nz/business-and-employment/business/financial-markets-regulation/conduct-of-financial-institutions-review/.
114. Regulatory changes for financial advice. https://fsp-register.companiesoffice.govt.nz/help-centre/getting-started-on-the-register/regulatory-changes-for-financial-advice/.
115. Regulatory changes for financial advice. https://fsp-register.companiesoffice.govt.nz/help-centre/getting-started-on-the-register/regulatory-changes-for-financial-advice/.

As noted above, the CCCFA is supplemented by the semi-voluntary Responsible Lending Code, which has also been updated with changes that will largely come into effect on 1 October 2021. The Code has been updated to reflect the above changes to consumer credit legislation as well as in response to feedback from lenders on their experiences during the first COVID-19 lockdown in 2020.

2.6.2.6 Fair Trading Act 1986

The FTA was amended in 2015 to provide a regime prohibiting the inclusion of "unfair" terms in standard form consumer contracts. This regime provides courts with the power to determine that a contractual provision in a standard form consumer contract is "unfair" on the basis of a detrimental imbalance of rights and obligations resulting from an inequality of bargaining power, and that such term is unenforceable. This change ties in with the above changes to the CCCFA and the shift to a more consumer-centric retail lending landscape.

In December 2019, the Fair Trading Amendment Bill was introduced to Parliament. The Bill includes various additional restrictions on actions in trade, including a prohibition on unconscionable conduct in trade and an extension of limitations on "unfair" contract terms to cover "small trade contracts" (currently defined as a contract where the value of the trading relationship does not exceed NZ$250,000 per annum). The Bill is currently going through the Select Committee process. The timing of any enacted legislation is not yet confirmed[116].

2.6.2.7 Changes to capital requirements and LVR lending restrictions

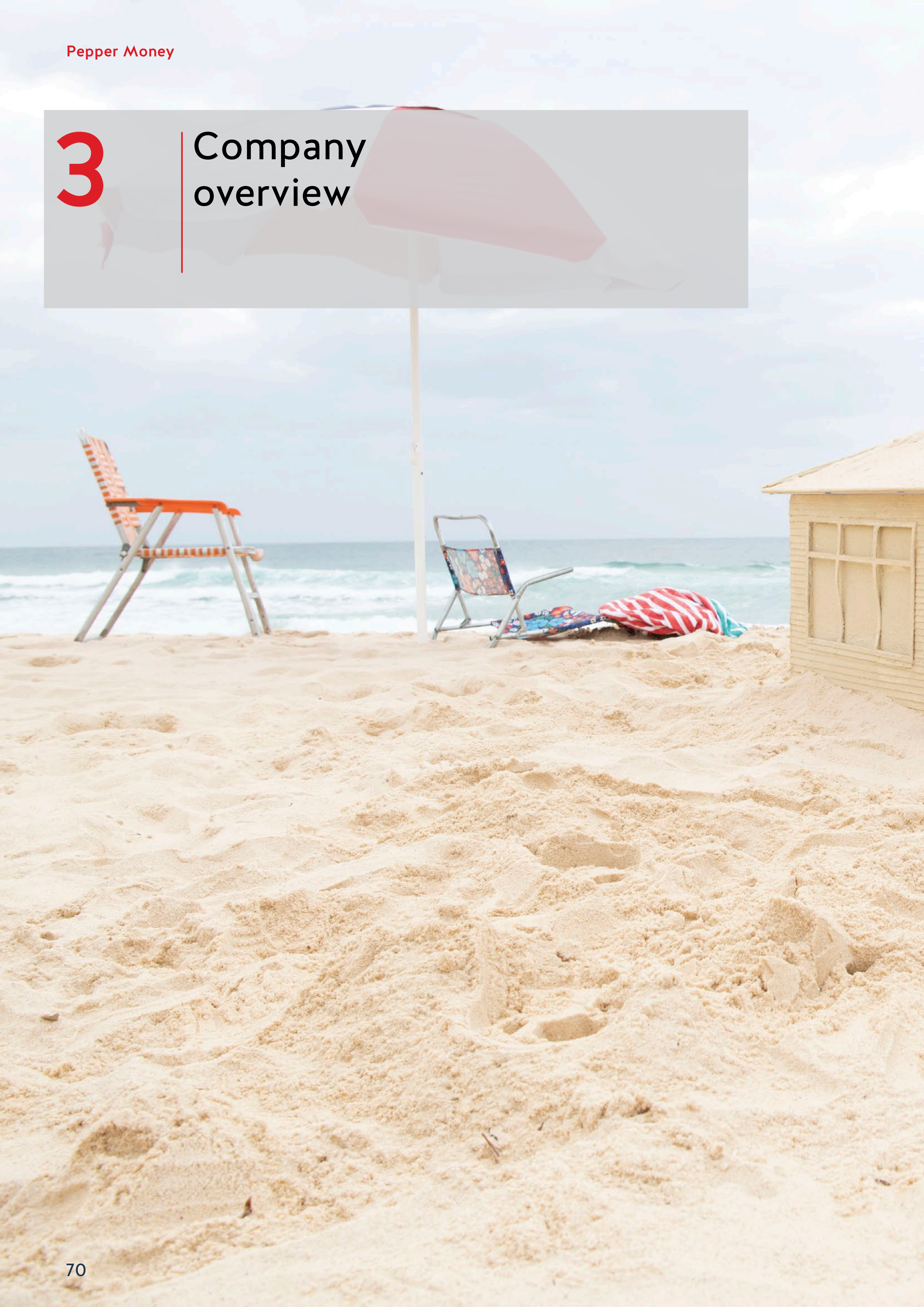
In line with the global trend of increasing the relative strength of banks' balance sheet and capital requirements, RBNZ has implemented the following initiatives:

- **October 2013:** RBNZ increased the correlation factor for high LVR mortgage loans, thereby increasing the capital adequacy requirements for the high LVR residential mortgage loans of internal rating-based banks;
- **November 2015:** residential mortgage loans secured by non-owner-occupied property are located in a separate sub-asset class and are subject to increased risk weights for standardised banks, and higher correlation factors and minimum loss given defaults ("**LGDs**") for internal rating-based banks;
- **October 2016:** macro prudential regulations were introduced that limit the amount of owner-occupier and investor lending banks are able to underwrite based on LVR characteristics;
- **December 2019:** RBNZ announced changes to the capital requirements of banks, to be implemented from 1 July 2021 (with a seven-year transition period), including:
  - banks' total capital increasing from a minimum of 10.5%, to 18% for the four large banks and 16% for the remaining smaller banks. The average level of capital currently held by banks is 14.1%[117]; and
  - recalibrating risk weighted assets ("**RWA**") for internal rating-based banks such that aggregate RWA will increase to 90% of standardised RWA;
- **1 March 2021:** LVR restrictions for owner-occupiers reinstated to a maximum of 20% of new lending at LVRs above 80%. LVR restrictions for investors reinstated to a maximum of 5% of new lending at LVRs above 70%; and
- **1 May 2021:** LVR restrictions for owner-occupiers will remain at a maximum of 20% of new lending at LVRs above 80%. LVR restrictions for investors will be further raised to a maximum of 5% of new lending at LVRs above 60%.

Pepper Money's view is that commercial opportunities may arise out of these regulatory changes. Section 5 contains a number of risks that the Pepper Money business may face or be impacted by in connection with compliance with laws, regulations and standards.

116. Unfair commercial practices, Ministry of Business, Innovation and Employment. https://www.mbie.govt.nz/business-and-employment/consumer-protection/review-of-consumer-law/protecting-businesses-and-consumers-from-unfair-commercial-practices/.
117. Higher bank capital means safer banking system for all New Zealanders, RBNZ (published 5 December 2019). https://www.rbnz.govt.nz/news/2019/12/higher-bank-capital-means-safer-banking-system-for-all-new-zealanders.

3 Company overview



3.1 Overview

3.1.1 About Pepper Money

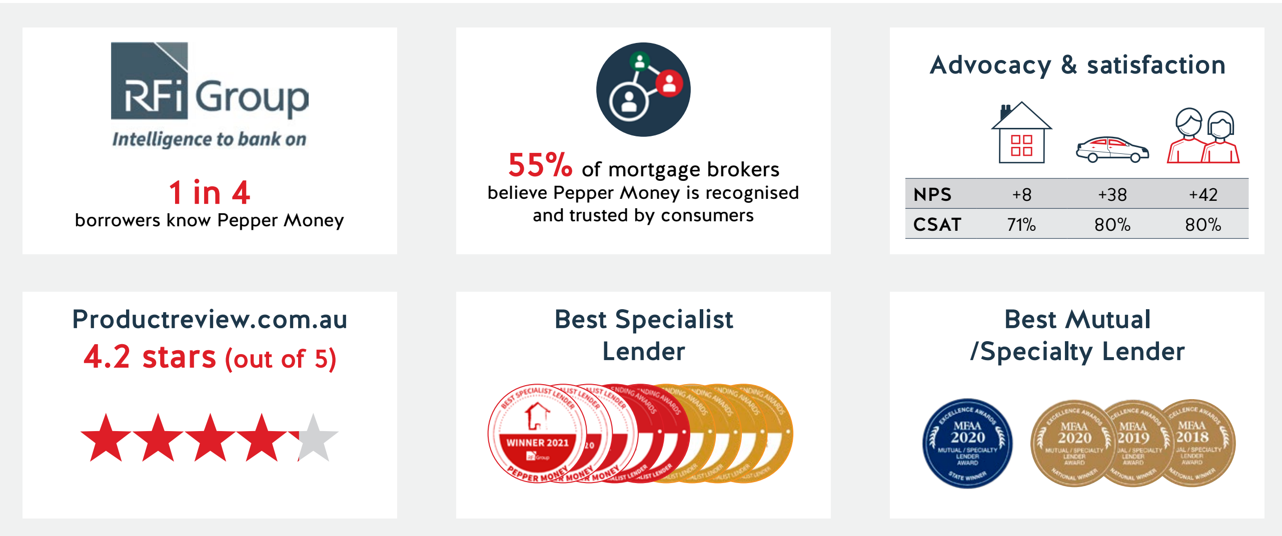
Pepper Money is one of the largest Non-Bank Lenders in the Australian Mortgage and Asset Finance markets.

Pepper Money was founded in 2000 to focus on providing innovative home loan solutions to customers that were being underserved by traditional lenders. Taking a customer-centred approach enabled the Pepper Money team to challenge the established model. By looking at each applicant's situation on an individual basis, Pepper Money was able to develop a more nuanced view of credit risk. The approach brought a human perspective to lending, which created alternative lending options for customers. Since then, Pepper Money has helped more than 220,000 customers[1] to succeed, leveraging data learning to continuously expand and calibrate the initial product range to encompass the comprehensive set of loan options now in Section 3.4.

Pepper Money's foundations are built on understanding customers whose needs are not being met. Independent research[2] conducted in 2021 showed that **six in 10** eligible non-conforming borrowers did not get a loan, with:

- **33%** deferring their decision to buy a home until their financial circumstances change;
- **38%** aware they will have to apply to a non-Major Australian bank; and
- **17%** being told not to even apply as they did not qualify.

Figure 38: Highlights of Pepper Money business[3]



As at 31 December 2020, Pepper Money had \$15.0 billion in AUM from \$32.3 billion of originations[4], including \$10.7 billion in outstanding Mortgage loans to customers originated or acquired by Pepper Money, \$2.6 billion in Asset Finance loans and \$1.7 billion in loans that Pepper Money services for third-party clients.

Leveraging their core values of ***Can-Do, Balanced and Real***, Pepper Money successfully entered both the New Zealand Mortgage market and the Australian CRE loan market in the second half of CY2019, and followed with novated lease in Q4 2020.

1. Cumulative 2014 to 31 December 2020.
2. Independent research conducted for Pepper Money in 2021 by Fifth Dimension Research and Consulting. Non-conforming Market Size survey. Research conducted and published in March 2021. Total sample size n=903.
3. NPS refers to customer NPS for Mortgages (+8), Asset finance (+38) and Personal loans (+42). CSAT indicates proportion of customers with a level of satisfaction rated 8+/10.
4. As at 31 December 2020.

Table 5 below provides an overview of the key customer solutions provided by Pepper Money.

Table 5: Pepper Money customer solutions

	Mortgages	Asset Finance	Loan and Other Servicing
Description	• Finance residential home loans in Australia and New Zealand and small balance CRE loans in Australia	• Finance range of asset types • Focus on underserved segments (for example, consumer used cars)	• Independent loan servicing provider • Broker servicing for Mortgage Aggregators
Products	• Conforming: Prime • Non-Conforming: Near Prime and Specialist	• Consumer • Commercial • Novated Lease	• Residential home loans servicing • Personal loans servicing • Broker servicing[5]
Originations (CY2020)	$3.4b	$1.2b	n/a
AUM (as at December 2020)	$10.7b	$2.6b	$1.7b
% of Pepper Money's total operating income – net of losses (CY2020)	75%	24%	1%
Estimated market share[6]	0.5%	5.1%[7]	n/a

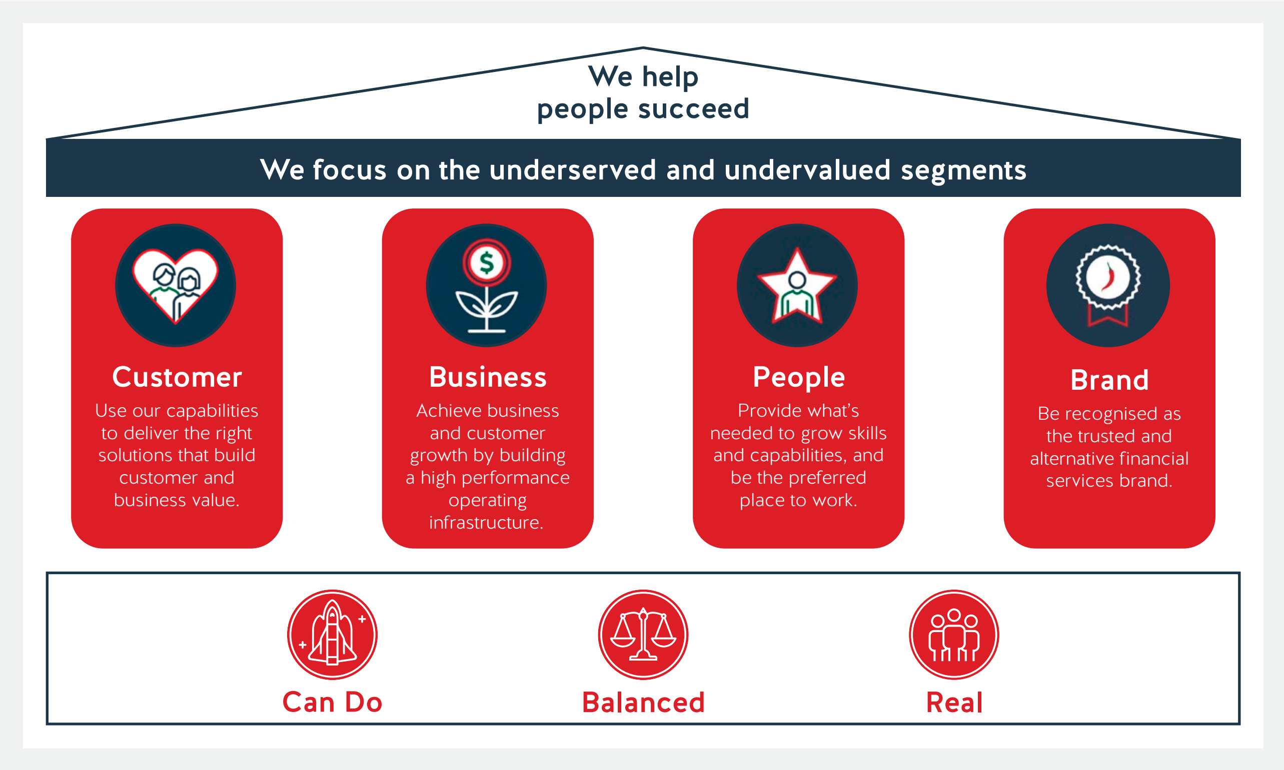
Pepper Money is supported by wholesale funders and securitisation investors. Pepper Money was the largest Australian issuer of public RMBS/ABS during 2020 and has one of the longest track records amongst its non-bank mortgage and asset finance peers.[8]

5. Broker servicing commenced in November 2020.
6. Estimated market share based on AUM. Mortgages excludes CRE. Asset Finance industry market size includes consumer motor and equipment financing only; commercial data not publicly available.
7. Represents Pepper Money's Asset Finance AUM as a proportion of consumer motor and equipment financing only; commercial not publicly available.
8. Commonwealth Bank of Australia, Australian RMBS/ABS, published December 2020.

3.1.2 Pepper Money's strategy

Pepper Money's vision is to be Australia and New Zealand's leading Non-Bank Lender with a mission ***to help people succeed***, with the foundation of Pepper Money's strategy built on four key strategic pillars to help deliver on its strategy; driven by a focus on Customer, Business, People and Brand, as described in Figure 39 below.

Figure 39: Pepper Money's strategy: To help people succeed



Pepper Money has a broad product offering within its Mortgage and Asset Finance businesses that cater for a range of customer needs. With over 20 years' experience in helping customers who do not fit the lending criteria of traditional banks, Pepper Money will continue to drive sustainable growth by leveraging its core capabilities to build complementary customer solutions and expand its addressable market into new adjacencies.

Pepper Money aims to help more people succeed by focusing on challenging the way loans are designed, distributed, and offered in Australia and New Zealand. Pepper Money's capabilities enables the business to offer digitally enhanced platforms that remove the complexity away from customers, brokers and introducers which position Pepper Money as a lender that is easy to deal with, consistent in credit decisioning and focused on helping customers succeed.

3.1.3 History, key milestones and awards

Pepper Money is the Australian and New Zealand lending and servicing division of Pepper Global. Pepper Money was established in 2000 and commenced lending as a specialist residential home loan lender in the Australian market in March 2001. The business has since established a scaled platform that benefits from strong underlying momentum across its core customer solutions. As part of this process, Pepper Money has broadened its product offering to have increased relevance to its network of distributors (“**Distribution Partners**”), through developing the Near Prime residential mortgage market in 2012, entering the Prime market in 2014, commencing lending for Asset Finance in 2014 and commencing lending in the New Zealand Mortgage market and Australian CRE loan market in 2019.

In December 2017, a special purpose company majority owned by funds advised by KKR & Co. Inc. (“**KKR**”) acquired Pepper Money. Since that time, Pepper Money has:

- invested in the business to develop operational scale, purpose-built technology-powered credit model and increased underlying infrastructure;
- implemented key digital distribution tools such as Pepper Product Selector™ and Pepper Resolve™, to help remove the friction points surrounding loan applications (refer to Section 3.5.2 for further details);
- further diversified its funding model to support increasing origination levels in existing and new asset classes;
- extended existing platforms and capabilities with its successful launch of New Zealand residential home loans and CRE loans in Australia to support underserved segments in those markets;
- increased the scale and capability of its shared service operations in Philippines, and leveraged the lower operating cost structure in the Philippines to enhance efficiency as the business has grown;
- established what Pepper Money believes is the first end-to-end, including collections management, mortgage platform in New Zealand, which provides Distribution Partners the tools to manage the customer from the front-end application process through to customer servicing; and
- achieved strong growth across a number of metrics with total AUM[9], total operating income – net of losses and NPAT (Pro Forma) increasing at CAGRs of 10%, 35% and 82% respectively from CY2018 to CY2020.

9. Lending and servicing (closing).

Figure 40 below lists some of the key company milestones in Pepper Money's operational history.

Figure 40: Key milestones in Pepper Money's history

Year	Cumulative Originations	Closing AUM	Milestones
2000			**Founded as a specialist residential home loan lender in Australia.**
2003	$0.5bn	$0.3bn	Established the Non-Conforming mortgage Securitisation.
2008 2009	$2.9bn	$0.8bn	In the lead-up to the Financial Crisis, completed a key Term Securitisation in November 2007 to increase warehouse capacity and added a second major bank as a warehouse provider. During the Financial Crisis, successfully called all Term Securitisation at first call dates and refinanced senior lenders as and when required. Appointed as servicer for over $4.0b in third-party originated portfolios (residential and commercial mortgages and auto and asset finance loans).
2010	$3bn	$0.7bn	Re-opened the Australian Non-Conforming RMBS market post the Financial Crisis with the issuance of Pepper Residential Securities Trust No.8 ($260m).
2011	$3.1bn	$4.9bn	Acquired GE Capital's Home Lending business in Australia and New Zealand (~$5b).
2012	$3.6bn	$3.9bn	Established Near Prime home loan product Acquired ADI originated auto loan book (~$150m).
2013	$4.4bn	$4.3bn	Acquired ADI originated commercial real estate loan book (~$250m).
2014	$5.7bn	$4.7bn	Established Prime home loan product and Pepper Asset Finance Reached > $1b annual originations in Australian residential home loans Commenced operations in Manila.
2016	$11.2bn	$7.1bn	Introduced retail lending brand "Pepper Money" + Commenced active Whole Loan Sales funding programs.
2017	$15.3bn	$8.9bn	A special purpose company majority owned by funds advised by KKR acquired Pepper Money + Established I-Prime, its first Securitisation of residential-mortgage loan portfolio originated by Pepper Money with a high proportion of investor and interest only loans + Implemented Pepper Product Selector™.
2018	$21.8bn	$12.3bn	Implemented Pepper Resolve™ + Commenced pilot for small balance commercial real estate loans + Pepper Money's inaugural Green Bond issuance + Originated in excess of $5bn in Australian residential home loans and $1bn in Assets Finance receivables.
2019	$27.7bn	$14.7bn	Established its First Asset Finance ABS through SPARKZ program + Established full offering for small balance commercial real estate loans + Scaled operations in Manila with the establishment of new facilities + Nationwide New Zealand roll-out of residential home loans Established an end-to-end mortgage platform in New Zealand.
2020	$32.3bn	$15.0bn	Implemented planned stress scenario origination, credit and measures to address COVID-19 environment + Raised in excess of A$4.8bn in Term Securitisations in 2020 through COVID-19 + Implemented a new asset finance origination platform to support higher volumes, build scale and enhance efficiency + Launched Novated Leases + Piloted new Mortgage originations platform in Australia for full implementation over 2021. + Launched new scaled Collections + Management Systems to support customer experience and data analytics + Launched new digital telephony platform to better support customer experience and data analytics.

$ Cumulative Originations $ Closing AUM

3.1.3.1 Industry awards

As illustrated in Figure 41, Pepper Money's success has been recognised with numerous business awards including:

- Australia's Best Specialist Lender in 2021 for nine years running (Australian Lending Awards); and
- Australia's Best Mutual/Specialty Lender National Winner in 2020 for three years running (Mortgage and Finance Association of Australia).

The awards provide external validation of Pepper Money's investment in customer and partner solutions to position Pepper Money as a leader among its peers.

Figure 41: A selection of recent Pepper Money industry awards

Market leadership

Non-Bank of the Year
Australian Mortgage Awards (2017, 2019)

Best Specialist Lender
Australian Lending Award (2013 – 2021)

Best Mutual/Specialty Lender
Mortgage and Finance Association of Australia (2018 – 2020)

Broad set of capabilities recognised

Best Mutual/ Specialty Lender
Mortgage & Finance Association of Australia (2020)

#1 BDM support	#2 Credit Policy	#3 Brand recognition	#3 Commission structure
#1 Communications, training and development	#2 Online platform and services	#3 Interest rates	#3 Overall non-bank of the year

3.1.4 Recent performance of Pepper Money

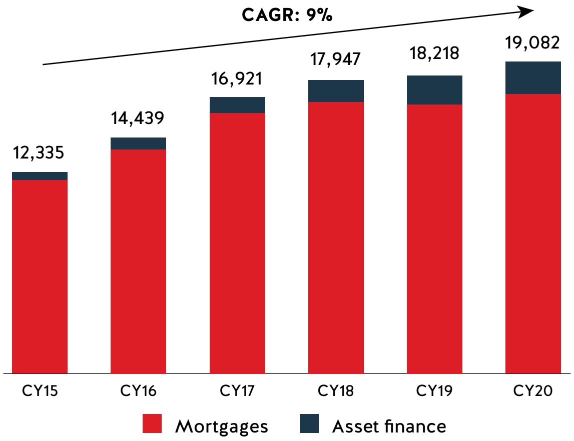
Pepper Money has grown its business by expanding its home loan product range, diversifying into complementary lending categories and investing in digital distribution tools. Pepper Money has now served more than 220,000 customers[10] across Mortgage and Asset Finance, including adding over 40,000 new customers in CY2020.

Pepper Money's distribution footprint is demonstrated in Figure 42, with a network of 19,082 Accredited Distribution Partners. Of the Accredited Distribution Partners, 5,381 are Active Distribution Partners who have written a Pepper Money-branded product or a Pepper Money white label product in CY2020, as shown in Figure 43, where Active Distribution Partners is defined as: for Mortgages, Distribution Partners submitting an application within 12 months, and for Asset Finance, Distribution Partners who have settled at least one deal within 12 months. The reduction in the number of Active Distribution Partners over 2020 is driven by reduction in applications received due to the impact of COVID-19 over 2020.

10. Cumulative 2014 to 31 December 2020.

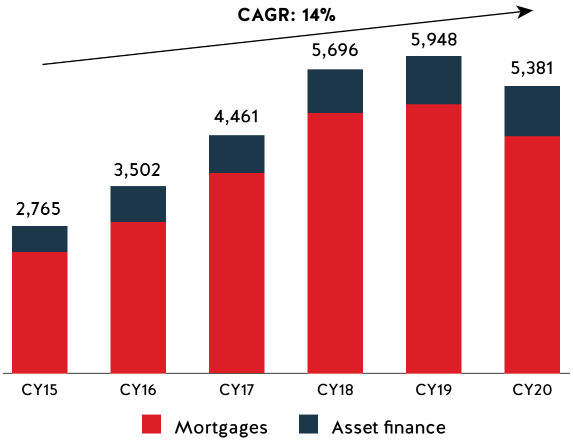
Figure 44 and Figure 45 show Pepper Money's annual origination volumes and AUM from CY2015 to CY2020, which have experienced a CAGR of 15% and 21% respectively. This has helped deliver a 35% and 82% CAGR for operating income and NPAT (Pro Forma) from CY2018 to CY2020 respectively, as demonstrated in Figure 46 and Figure 47.

Figure 42: Accredited Distribution Partners



Mortgages includes Australia, New Zealand and CRE. Accredited Distribution Partner defined as: for Mortgages, one who is duly authorised and approved to submit Mortgage Applications to Pepper Money; and for Asset Finance; an introducer who Pepper Money Asset Finance has completed due diligence on and found to be an acceptable business partner to originate business with Pepper Money.

Figure 43: Active Distribution Partners



Number of Active Distribution Partners.[11]

Figure 44: Annual originations

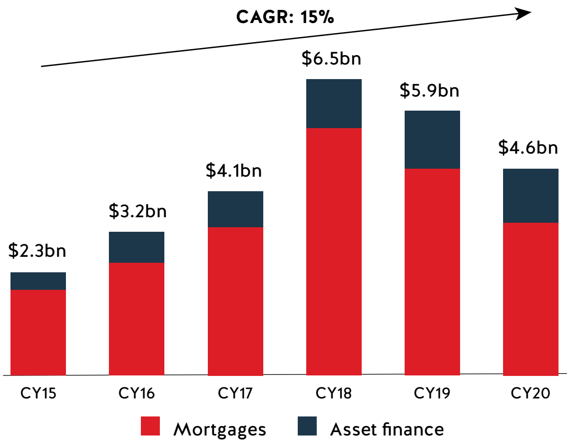
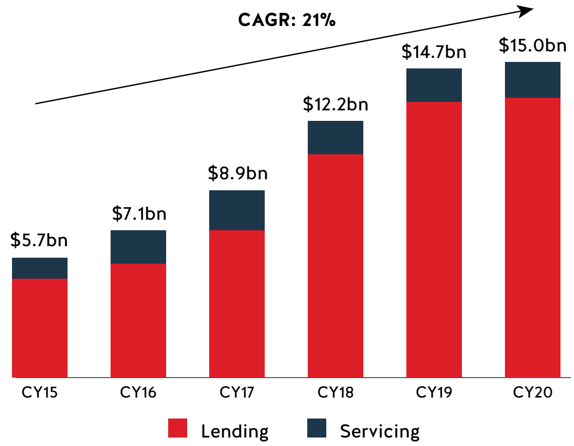
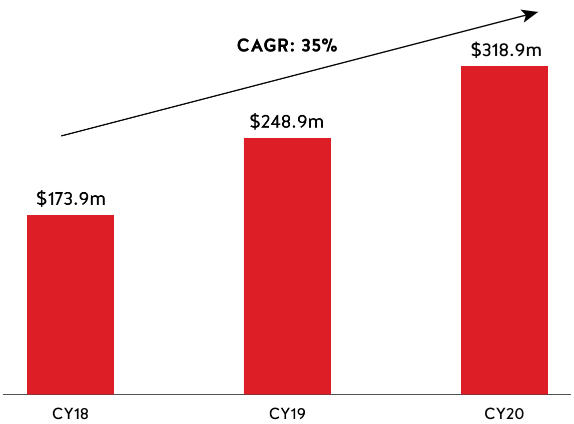


Figure 45: Total AUM



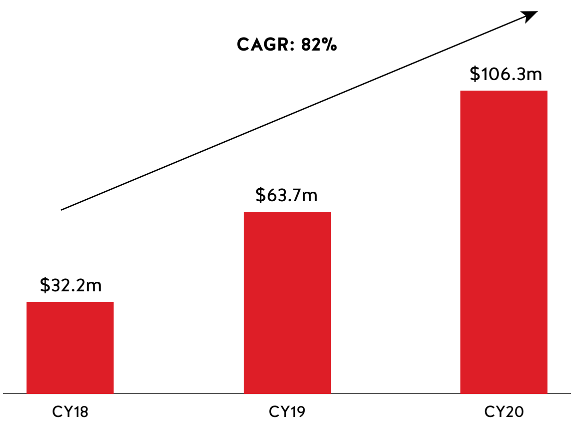
Total AUM (Closing) includes Mortgages, Asset Finance, CRE, and Servicing.

Figure 46: Total Operating income



Total operating income - net of losses.

Figure 47: NPAT (Pro Forma)



11. Includes 290 brokers in New Zealand at CY20.

3.2 Pepper Money's business model

3.2.1 Pepper Money's core capabilities

Pepper Money's core capabilities, as illustrated in Figure 48, revolve around its ability to capture and analyse data it has generated from its 20+ years of customer and transactional history, and to leverage this data in identifying underserved customer segments, developing technology to support its Distribution Partners assist the efficient distribution of its solutions and apply risk-based pricing to its products.

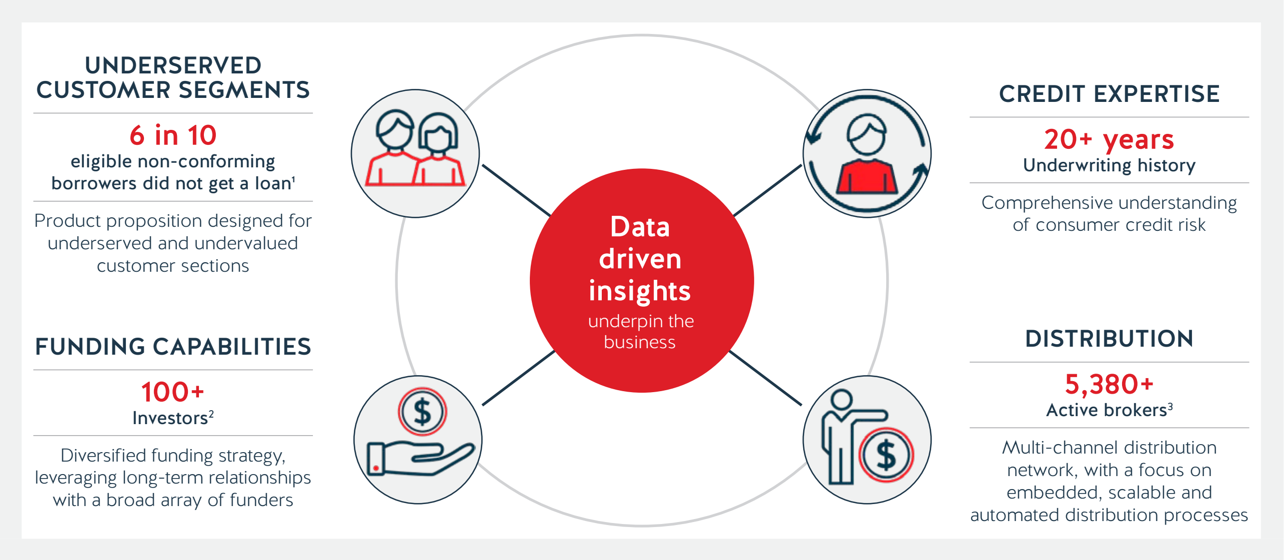
Underserved customer segments: Pepper Money focuses on understanding customers whose needs are not being met, including those that are underserved by the banks. An underserved customer is defined as someone who does not meet the lending criteria of the traditional banks. These customers might be dealing with changes in financial circumstances due to a specific life event, or they may simply find themselves no longer eligible due to changes in banks' lending criteria. Pepper Money is able to assess credit for these customers efficiently through its Credit Cascading Model whilst applying the human element in the process by looking at each individual's situation and creating a solution tailored to the risk profile of the customer. Pepper Money offers a wide range of options to diverse customer groups, offering Prime, Near Prime and Specialist loans, underwritten by 20+ years of market and existing loan pool data supported by analytics (refer to Section 3.2.1.2).

Credit expertise: Pepper Money's credit processes and decisioning engine have been developed with the experience of originating and managing over $32.3 billion of loans since inception[12] (refer to Section 3.7.8). Pepper Money was also the first mortgage-focused Non-Bank Lender to participate in CCR[13]. Pepper Money has leveraged its deep credit expertise to create and calibrate its Cascading Credit Model (refer to Section 3.2.1.3).

Distribution: Pepper Money has continued to support and strengthen its distribution network by providing automatically generated, tailored educational materials that allow Distribution Partners to be more informed on the market opportunity for Pepper Money products. Pepper Money has also developed digital tools that allow Distribution Partners to better serve their customers through faster and more accurate identification of available loan products (refer to Section 3.4).

Funding capabilities: Pepper Money's data, credit history, loan performance and reporting functionality have allowed the business to develop a sophisticated and diversified funding model with the ability to execute a variety of transaction types to capture funder demand (refer to Section 3.5).

Figure 48: Pepper Money's core capabilities



Notes:

1. *Independent research conducted for Pepper Money in Q4 2014 by Fifth Dimension Research and Consulting. Brand Strategy Planning Study.*
2. *ANZ only. Refers to securitised term details.*
3. *Active brokers defined as: for Mortgages brokers submitting an application within 12 months and for Asset Finance: brokers who have settled at least one deal within 12 months. Includes New Zealand (290) as at December 2020.*

12. As at 31 December 2020.
13. https://www.creditsmart.org.au/learn-about-credit/credit-providers-that-currently-participate-in-ccr/.

3.2.1.1 Data-driven insights to support the business

Pepper Money operates with an emphasis on data quality and control, including ensuring that data from across the business is maintained in a centrally managed source. Pepper Money has combined its customer and transactional data with externally sourced data and intellectual property from Pepper Global's non-Australian operations in countries such as the UK and Ireland, to further enrich Pepper Money's data sets and provide insights into credit appetite, product positioning and pricing for risk. Certain offshore markets in which other parts of the Pepper Global Group operate have endured more significant periods of stress than has been the case in Australia, and Pepper Money has incorporated some of Pepper Global's data and learnings from its experience in these markets. For instance, as Pepper Money entered into CRE loan origination in Australia, it drew from Pepper Global's Irish experience, where it remains an active provider of loan servicing for non-performing CRE and residential loan portfolios.

Pepper Money combines its customer and transactional data with external data sets, including a number of Australian credit bureaus. Pepper Money uses a range of different techniques, including machine learning, to analyse the data and deliver insights to the business.

Pepper Money is expected to be a beneficiary of the CCR and Open Banking regimes introduced in 2018 and 2020 respectively, having developed the capability to utilise additional data sources to generate insights, which are used to inform its risk appetite, governance and controls, as well as allowing Pepper Money to develop target customer personas, undertake customer scenario analysis and report on customer and channel profitability.

Data-driven insights have been used to drive innovation in product development, increase user self service capabilities and improve the business operations more generally. Table 6 below provides some examples of how Pepper Money uses data to improve its business operations.

Table 6: Application of data to support Pepper Money's business

Insight	Overview	Example
Segment analysis	Identifying segments in the market where Pepper Money can operate and deliver value for customers.	Pepper Money analyses market data and trends to uncover underserved customer segments within existing and new asset classes. Examples of underserved market segments that Pepper Money has identified, and grown market share in, include: **Near Prime Mortgages** • established in 2012, after Pepper Money recognised a gap in the market between Prime and Specialist. An opportunity was identified to better serve customers who fell outside the criteria for Conforming loans and were being charged higher Non-Conforming interest rates that over-priced their credit risk. Near Prime and Specialist constituted 50% of Pepper Money's Mortgage portfolio in CY2020[14]. **Prime Mortgages** • established in 2014, after recognising the material benefit of offering Prime products as a complementary product to its then existing suite. Prime constituted 48% of Pepper Money's Mortgage portfolio in CY2020[14].

14. Composition of Mortgage AUM (including New Zealand and Commercial Real Estate). As at 31 December 2020.

Insight	Overview	Example
Segment analysis *continued*		**Asset Finance** • established in 2014, after Pepper Money observed Major Australian Banks were reducing credit to this sector. Pepper Money's Asset Finance business delivered over $1.2 billion of originations in CY2020, covering used and new cars, leisure vehicles, caravans, marine, commercial and other asset finance categories. **Commercial Real Estate** • launched in 2019 in response to feedback from Distribution Partners and customer demand[15]. **New Zealand Mortgages** • established in 2019, after recognising the Near Prime and Specialist customer segments within the New Zealand market landscape and the constraints on Major Australian Banks operating in New Zealand from increasing capital requirements[15].
Customer analysis	Pepper Money uses qualitative research and data analytics to better understand its customer base.	Pepper Money uses qualitative research and its partnership with credit bureaus to better understand its customer base. This has allowed it to more effectively communicate with its customer base and support Distribution Partners to identify areas for potential growth. **Pepper Opportunity Finder – reporting on customer profile** The typical **Pepper** customer in the Melbourne – South East region of Victoria is Gender | M (**66%**) Age | **46** years old Marital status | Married (**49%**) Dependants | **0.7** dependants Personal | [redacted] **43%** **Typical financials** Employment status | Full-time (**60%**) Gross income | **$75,000** annually Net income | **$51,914** annually **Typical loan attributes** Channel | **66%** Retail Loan amount | **$394,856** Loan to Income | **5.2** x Gross income LVR | **78%** Interest Rate | **5.8%**

15. Commercial Real Estate and New Zealand Mortgages constituted ~1% each to Pepper Money's lending portfolio in CY2020.

Insight	Overview	Example
Pricing for risk	Pepper Money uses credit data and experience to price for risk and adjust underwriting for customer and collateral risk.	Pepper Money adjusts pricing on different products and loan characteristics offered depending on the customer and collateral risk profile.

Example: Mortgages

Limits at different LVRs for different documentation types in Mortgages

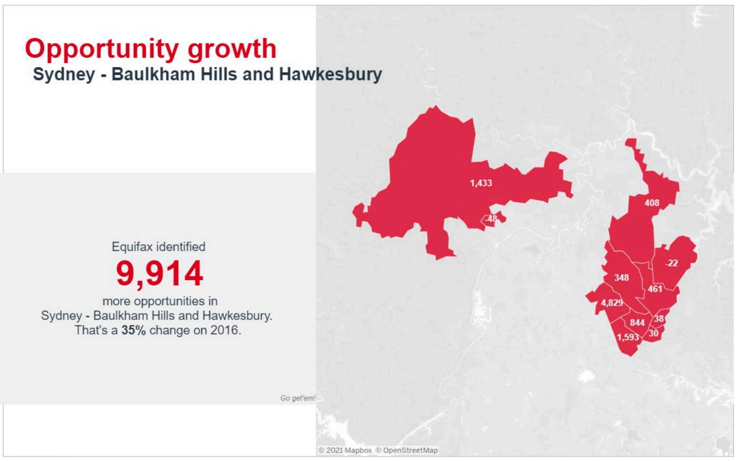
Australian $		Up to 65%	Up to 70%	Up to 75%	Up to 80%	Up to 85%	Up to 90%	Up to 95%
Pepper Prime	Full doc	$2.0m	$2.0m	$1.5m	$1.5m (Syd/Melb Metro) ($1.0m All other locations)	$850k	$750k	$650k
	Alt Doc	$2.0m	$2.0m	$1.5m	$1.0m	–	–	–
Pepper Near Prime	Full doc	$2.5m	$2.0m	$1.75m	$1.5m	$1.0m	$850k (Syd/Melb Metro) $800k (All other locations)	$650k
	Alt Doc	$2.5m	$2.0m	$1.75m	$1.5m	$650k	–	–
Pepper Specialist	Full doc	$2.5m	$2.0m	$1.75m	$1.25m	$750k	$750k	$650k
	Alt Doc	$2.5m	$2.0m	$1.75m	$1.25m	$650k	–	–

Example: Asset Finance

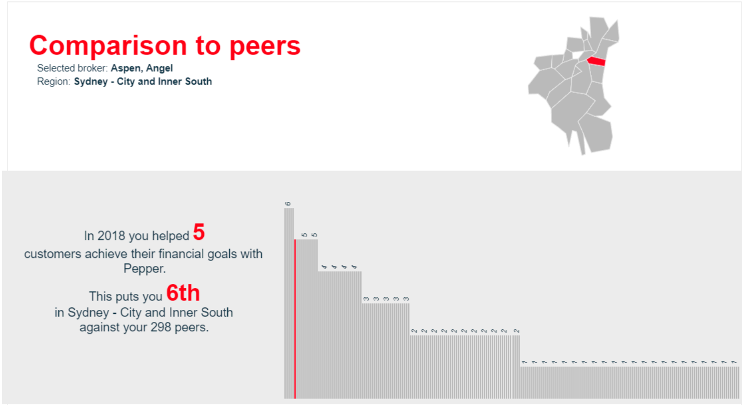
Purpose-built scorecard with three credit tiers, capturing over 20 risk bands to determine probability of default and expected loss

Credit tier	Employment status	Residential history	Asset backed	Financial activity	Credit history
A	2+ years full time	Maximum 2 addresses in 3 years	Home owner, buyer or asset backed	Mature/ established file with regular activity	A-rated/good
B	Minimum 2 years full time	Maximum 2 addresses in 2 years	Home buyer or stable renter with some asset backing	Established file with regular activity	Good/ satisfactory
C	Less than 2 years part-time/casual	Some instability or living with parents	Renter, boarder or living with parents	New or established file with high recent activity	Satisfactory/ mitigated slow credit history

Insight	Overview	Example
Insights for Distribution Partners	Pepper Money provides Distribution Partners with real time information about opportunities for their business. This helps to educate Distribution Partners on the potential opportunity to write Pepper Money products by illustrating the volume that peers have written in the Distribution Partners' region.	**Pepper Money Opportunity Finder – Opportunity growth**



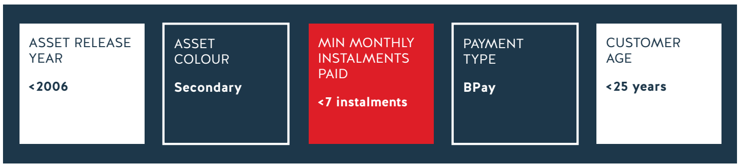
*Note: Automatically generated reporting for Business Development Managers ("**BDMs**") that provides a report of a Distribution Partner's local region and opportunities for products in that region.*

Insight	Overview	Example
Insights for Distribution Partners *continued*		**Pepper Money Opportunity Finder – Distribution Partners' market position**  *Note: Automatically generated reporting for BDMs that provides a report of a Distribution Partner's market position in Pepper Money products relative to other Distribution Partners in their area.* **Asset Finance Distribution Partner dashboards** Data harnessed and presented to Distribution Partners to show current portfolio by key metrics (including volumes, asset type, interest rates and losses). Pepper Money can show this at the loan writer level within a Distribution Partner entity, allowing Pepper Money to identify value-maximising opportunities and potential training gaps for the Distribution Partner.
Credit decisioning	Pepper Money uses its credit performance and data to develop its credit management and decisioning processes.	**Decision Engine** Pepper Money's credit policy rules have been derived on a risk ranking basis, validated by Pepper Money's 20+ year loan performance outcomes. A decision engine is embedded within the loan origination workflow that derives the eligible product or risk tier based on the application characteristics. **Comprehensive Credit Reporting** Pepper Money automatically uses the positive credit report information available on a customer's credit bureau file to efficiently assess product eligibility and verify the customer's debts. This provides efficiencies for the customer and credit assessor in the provision and assessment of a customer's repayment history information. **Productivity and Efficiency** Pepper Money analyses productivity information of front-line credit staff to identify areas of inefficiency and opportunities for improvement. For example, in Asset Finance, Pepper Money uses third-party data services to analyse data from customer bank statements and provide more data-rich decisions.

<table>
<tr><th>Insight</th><th>Overview</th><th>Example</th></tr>
<tr><td>Collections</td><td>Pepper Money uses data and machine learning to predict the likelihood of default, and refine collections processes; for example, determining the best time and method for customer contact following a missed payment.</td><td>

Example: Machine Learning in Asset Finance

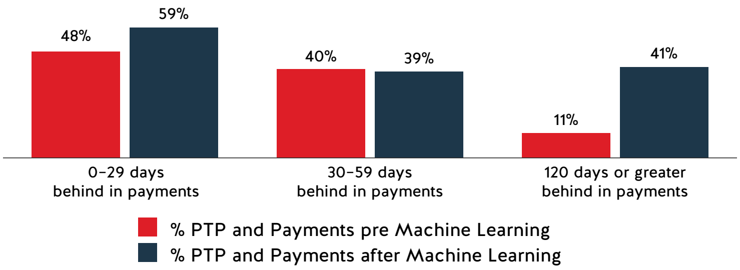
Factors driving likelihood of missing payments



Updates made to Asset Finance collections process

- Developed using machine learning
- Deployed in fourth quarter of CY2017
- Key developments included:
  - likelihood to miss repayment SMS campaigns;
  - SMS as a communication preference; and
  - focus on improving success rates of collectors.

Improved payments from contact[16]



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3.2.1.2 Customer base

Pepper Money operates in a large addressable market, covering $2,160 billion of credit outstanding for Mortgages[17] and $52 billion of credit outstanding for Asset Finance[18]. Pepper Money has developed a comprehensive product offering and invested in brand and marketing to attract a diverse customer base.

Pepper Money regularly considers its product offering in the context of the prevailing competitive environment and applies a disciplined approach to pricing to allow the business to generate an acceptable risk-adjusted return. For example, for Pepper Money's Prime home loan product, the business generally lends to higher credit-quality customers and as part of its broad range also offers loan products such as investor, interest-only and higher loan-to-value solutions which generally attract a higher interest margin.

Pepper Money believes the following characteristics makes Pepper Money attractive to customers compared to its competitors:

- personalised approach to credit underwriting, including taking the time to understand the customers' circumstances and offer a product that is suitable;
- the product and credit knowledge of Pepper Money's business development managers to best inform and support Distribution Partners;
- consistency and transparency of its credit appetite, which provides Distribution Partners and customers with greater confidence in determining whether the customer will (or will not) be approved for a certain Pepper Money product;

16. Represents conversion after Right Party Contact ("**RPC**"), when the Collections team has made contact with the right person. Promise to Pay ("**PTP**") refers to when a Customer enters into a payment arrangement to clear the arrears on an account. This can either be by way of a lump sum or a series of periodic instalments.
17. As at 31 December 2020. Combination of Australia and New Zealand mortgage markets as at December 2020.
18. As at 31 December 2020. Industry market size includes consumer motor and equipment financing only; commercial data not publicly available.

- Cascading Credit model which allows a single application to be accessed against multiple solutions;
- one of the industry leading times to approval[19] which provide both Distribution Partners and customers with certainty of decision; and
- customer service which supports customers not just through application but over their journey with Pepper.

Underserved customer segments

In addition to providing a customer offering that serves the broader market, Pepper Money uses market and data-driven insights to identify and assist underserved segments of the Mortgage and Asset Finance markets. Pepper Money supports areas where Distribution Partners and customers are underserved by traditional lenders, and where it believes its expertise can be used to deliver value to those customers as well as generate an acceptable risk-adjusted return. Underserved segments of the market are typically segments where the market is either too small or too cumbersome (or both) for traditional banks to focus on Figure 49 below provides a selection of Pepper Money's current focus customer segments.

Figure 49: Select customer segments

Mortgages examples

Borrowers

- Self-employed/"gig economy"
- Loan purposes not regarded as "prime" by mainstream banks
- "Life event" (unemployment, sickness, divorce)
- Adverse or limited credit history
- Typical bank mortgage customer
- Does not have one/two years of ATO tax returns
- New Australians

Loan purpose

- First home finance
- Refinance existing loan
- Upgraders/ empty nesters
- Investment loan

Asset Finance examples

Borrowers

- Used car for family
- Self-employed
- Novated lease
- Small to medium business
- Grey nomads (caravan)
- Corporates

Loan purpose

- Used car
- New car
- Marine
- Caravan
- Bike
- Equipment

Insights into the customer base

From 2014, Pepper Money has used qualitative research and data analytics to understand the profile and characteristics of its customer base and help inform its decisions to better serve its customers.

This includes looking at factors such as credit risk, socio-economic, demographic and home loan demand, as well as understanding customer life stage needs, attitudes towards money, media consumption and channel preferences.

Pepper Money translates these insights into opportunities by combining the findings with credit bureau data to determine which geographies have similar characteristics to Pepper Money's customers, and also developing tailored marketing messages which it provides to its Distribution Partners to assist them in describing the Pepper Money solution to their customers.

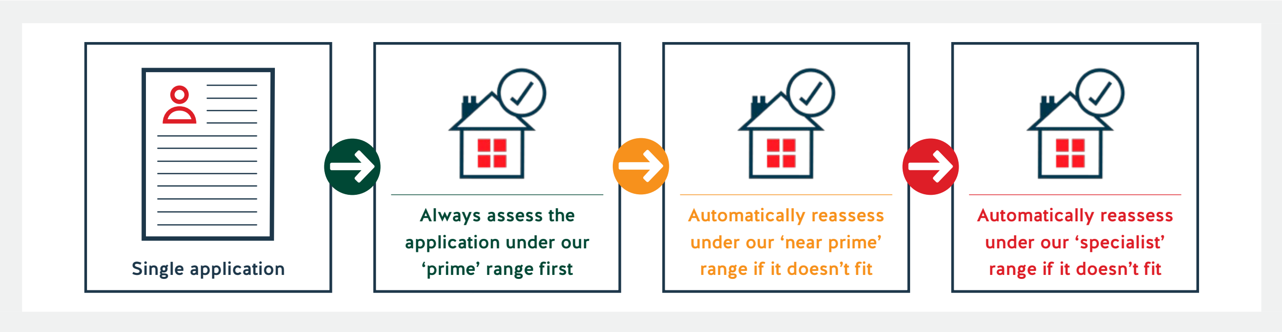
19. Same day if received before noon; turnaround within 24 hours if received after noon.

3.2.1.3 Cascading Credit Model

Pepper Money has developed a purpose-built cascading underwriting assessment for Mortgages where a single application form accesses three credit policies which are attached to a range of loan products.

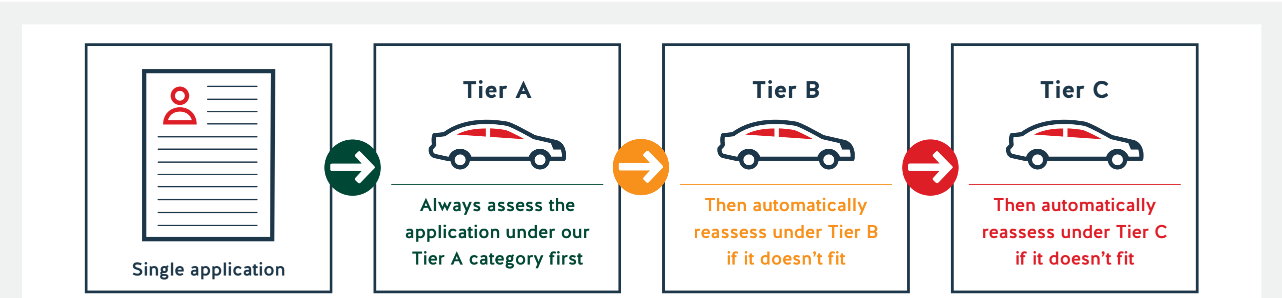
As illustrated in Figure 50 below, Mortgage customers submit a single application, the credit model assesses the application against the Prime criteria in the first instance, and then "cascades" from Prime to Near Prime to Specialist based on the customer profile.

Figure 50: Illustration of the Cascading Credit Model for Mortgages



Using a similar concept, as illustrated in Figure 51 below, Asset Finance customers submit a single application, with the characteristics of the customer (including employment status (or length of ABN/GST registration), asset backing and credit history) determining the appropriate risk category for the loan. However, unlike Mortgages, Asset Finance uses the same credit policy to cater across risk tiers.

Figure 51: Illustration of the Cascading Credit Model for Asset Finance



Pepper Money operate with 20 risk bands, which determine probability of default and expected loss, and are grouped into three credit tiers for consumer and commercial customers for the ease of communication with introducers on pricing for each risk band.

The Cascading Credit Model provides key benefits to the Distribution Partner and customer:

- **Distribution Partner**:
  - submits a single application for multiple possible solutions;
  - allows the Distribution Partner to recommend the Pepper Money product that is the most suitable solution;
  - reduces the risk the Distribution Partner recommends a higher risk (and higher rate) product from an oversight in judgement by the Distribution Partner, with the Cascading Credit Model providing operational guard rails; and
  - increases the probability of conversion of applications given multiple solutions considered.
- **Customer**:
  - offered the most suitable Pepper Money solution for their risk profile;
  - decreases the required turnaround time between application and indicative offer; and
  - provides the customer a higher probability of a successful application.

3.3 Revenue model

Pepper Money's revenue is derived from the interest and fees earned by lending (Mortgage and Asset Finance) and, for a small proportion, through fees earned on third-party Loan and Other Servicing.

Pepper Money earns lending based revenue from customers paying interest and other fees. Pepper Money pays upfront (and in the case of Mortgages, ongoing trail) commissions to Distribution Partners for originating loans and interest expense on funding, and incurs losses when customers do not make their repayments. Mortgages account for 75% of CY2020 total operating income and Asset Finance accounts for 24% of total operating income, in each case net of losses[20].

Figure 52 below provides an illustrative view of how Pepper Money's operating income – net of losses is derived. Refer to Section 4 for additional disclosure on financial information.

Figure 52: Illustration of Pepper Money's operating income generation

	Commencement of loan	Life of loan
Net interest income CY2020: $352m		**Driven by AUM, net interest margin** + Interest revenue received from customers + Mortgage Risk Fees/Loan Protection Fees received from customers where LVR exceeds certain thresholds, amortised over life of loan (driven by LVR thresholds) – Loan acquision costs amortised over the life of the loan (such as upfront broker commissions) – Interest expense on Warehouse Facilities and Term Securitisations, and amortisation of associated establishment costs
Net lending fees CY2020: $6.5m	**Driven by # loans originated, fees per loan** + Fee income from upfront application and establishment fees – Upfront loan origination costs (such as valuation fees and credit bureau fees)	**Driven by AUM, net fees per loan** + Fees received from a customer over the life of the loan (including account, dishonour and enforcement fees) – Trail commissions – Fees paid to funding related service providers following the origination process (e.g. trustee fees and custodian fees) – Enforcement costs
Whole loan sales CY2020: $9.6m		**Driven by WLS sales, premium achieved** + Premium received on the sale of Pepper Money originated loan portfolios to external third party buyers net of transition costs
Loan losses CY2020: $56.7m	**Driven by originations, provision rate** – Expected loss provision established at origination of loan based on expected future losses (per AASB 9)	**Driven by AUM, loss experience** – Actual loan losses incurred + Release of loss provision as loan portfolio amortises +/- Movement in provision rates for portfolio for any given period
Servicing fees and other income CY2020: $7.3m		**Driven by servicing portfolio balance, fee margin** + Fee negotiated per contract, including a base and variable component (generally set as a percentage of the portfolio balance)
Total operating income CY2020: $318.9m		

20. Residual 1% accounted for in Loan and Other Servicing. This segment also includes personal loans originations for 2017 to November 2019. Refer to Section 4.4.3 for further details.

3.4 Product overview

3.4.1 Mortgages

Pepper Money's Mortgage products are designed to provide flexible lending solutions to meet customer needs. The comprehensive understanding of customer needs and credit risk have been developed across 20+ years of underwriting history.

Since Pepper Money commenced its operations in 2000, the business has been focused on writing Australian residential home loans, initially targeting the Specialist segment of the market. Pepper Money broadened its product offering in Australia to include Near Prime residential home loans in 2012 and Prime residential home loans in 2014, and now has a strong presence in most key segments of the Australian residential home loan market.

In 2019, Pepper Money entered the New Zealand residential home loan market and the Australian small balance CRE loan market.

Pepper Money primarily distributes Mortgages through its network of over 17,000 Accredited[21] and more than 4,400 Active[22] Distribution Partners as at 31 December 2020.

3.4.1.1 Key product features and design

Key features of Pepper Money's Mortgage offering include:

- **designed for the customer**: products and services are designed to deliver a streamlined, personalised service leveraging a Cascading Credit Model to enable customers to be provided with the most suitable solution;
- **flexible lending solutions for a range of circumstances**: Pepper Money undertakes an individual and personalised assessment of potential customers. This allows Pepper Money to offer lending solutions to customers that may not generally be eligible to obtain a loan from traditional ADI lenders, such as customers with alternative forms of income documentation, impaired credit history or differing employment types; and
- **assist Distribution Partners to provide customer with a solution**: Pepper Money supports Distribution Partners with tailored insights which inform them on the opportunity to write Pepper Money products. It also designed the Cascading Credit Model which allows Distribution Partners to submit a single application for multiple possible solutions. Pepper Money also develops digital tools to support Distribution Partners to convert more applications and provide more customers with a Pepper Money solution.

3.4.1.2 Product risk tiers

As outlined in Table 7, Pepper Money has a product offering where customers are assessed based on credit and loan product characteristics. The product offering is focused on three risk bands – Prime, Near Prime and Specialist.

Pepper Money's Prime product is designed for Conforming customers, with its Near Prime and Specialist products designed for Non-Conforming customers.

21. Mortgage Accredited Distribution Partners refers to the number of Distribution Partners who are duly authorised and approved to submit a Mortgage application to Pepper Money at a given date. Includes New Zealand and CRE Distribution Partners. Accredited brokers are required to have their Pepper Money accreditation renewed annually, regardless of whether they are considered active or not.
22. Mortgage Active Distribution Partners refers to the number of Distribution Partners who have submitted an application within 12 months.

Table 7: Product offering (as at 31 December 2020)[23]

	Mortgages				CRE
	Australia			New Zealand	Australia
	Conforming	Non-Conforming			
Product	**Prime**	**Near Prime**	**Specialist**	**Prime, Near Prime, Specialist**	**Prime, Near Prime**
Target customer segment	A home loan for customers with a clear credit history. The loans typically meet traditional ADI lending criteria.	A home loan for customers who do not satisfy all aspects of the traditional ADI lending criteria and require a more flexible approach.	A home loan for customers whose circumstances have made getting a loan more challenging. Customers may have experienced a "life event" (for example, illness, divorce) that caused a short-term credit deterioration.	A home loan for customers in New Zealand, across Prime, Near Prime and Specialist.	Targets small balance commercial real estate <$3.5m, maximum exposure of $5m.
Originations composition[24]	57%	32%	6%	3%[25]	2%[26]
Portfolio composition[27]	48%	38%	13%	1%	1%
Average interest rate[28]	4.1%	5.1%	5.8%	5.4%	5.2%
Average loan balance outstanding[29]	$366k	$423k	$328k	NZ$423k	$688k
Average contractual loan term[30]	29 years	30 years	30 years	28 years	22 years
Average LVR[31]	70%	72%	66%	72%	61%
Owner occupied (%)[32]	52%	75%	81%	86%	34%
Interest only (%)[33]	34%	16%	10%	10%	58%
Full doc (%)[34]	87%	55%	61%	92%	71%

23. Unless otherwise specified, statistics based on credit balance outstanding as at 31 December 2020.
24. Originations composition for CY2020.
25. New Zealand originations are split by 33% Prime, 54% Near Prime and 13% Specialist.
26. CRE originations are split by 77% Prime and 23% Near Prime.
27. Composition of closing Mortgage AUM as at 31 December 2020.
28. Weighted average interest rate, based on composition of closing Mortgage AUM as at 31 December 2020.
29. Average loan balance per customer is based on closing AUM as at 31 December 2020.
30. It is common for loans to be refinanced before the end of their contractual term.
31. Average of LVR at the time of origination, based on closing Mortgage AUM as at 31 December 2020.
32. Proportion of closing Mortgage AUM that comprises Owner Occupied loans, as at 31 December 2020.
33. Proportion of closing Mortgage AUM that comprises Interest Only loans, as at 31 December 2020.
34. Proportion of closing Mortgage AUM that comprises Full Documentation loans, as at 31 December 2020.

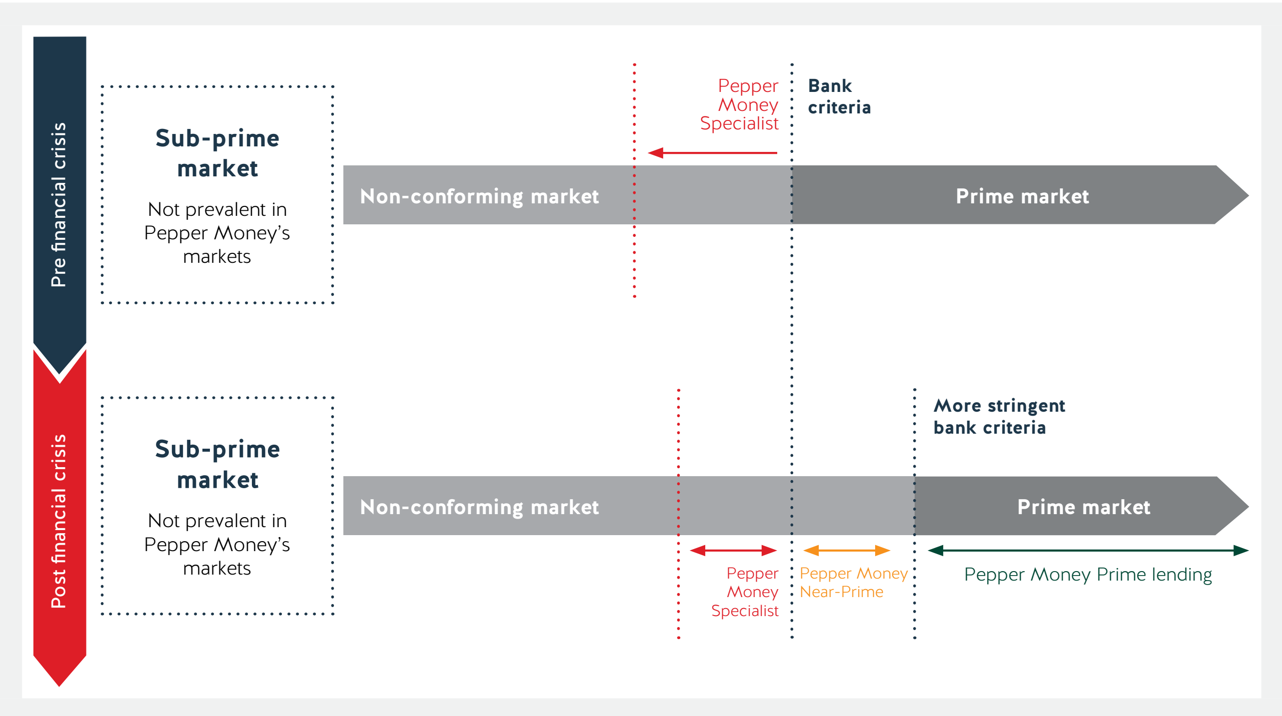
3.4.1.3 Pepper Money's lending appetite compared to the Major Australian Banks

As described in Section 2.2, the Australian and New Zealand residential home loan market represents a total addressable market of $2,160 billion, predominately serviced by Australian Major Banks who generally focus on Prime/Conforming customers.

Pepper Money provides lending products to Conforming (through its Prime product) and Non-Conforming (through its Near Prime and Specialist product) customers. Given the scale of the market and the Major Australian Banks' operations, small changes in the Major Australian Banks' risk appetite can result in a material opportunity for Non-Bank Lenders like Pepper Money to absorb the demand from Non-Conforming customers.

As illustrated in Figure 53, post the GFC in 2008 to 2010, Pepper Money's opportunity expanding up the credit curve, with Major Australian Banks tightening credit. As a result, the opportunity arose for Pepper Money to start providing loan products to "Near Prime" borrowers who may have previously been considered as Prime.

Figure 53: Illustrative Major Australian Bank lending appetite[35]



Current areas where Pepper Money offers Near Prime and Specialist customer solutions that are outside the focus of Major Australian Banks include:

- product appetite contracting or expanding driven by portfolio strategy (for example, construction and alternative documentation);
- consumer loans that are requested by customers for business use;
- adverse credit history (defaults or court judgements) or discharged bankruptcy;
- adverse repayment history on debts being refinanced; and
- short-term self-employment (between six to 24 months of being self-employed), short-term employment (less than six months at current place of work or on probation), or gig economy worker.

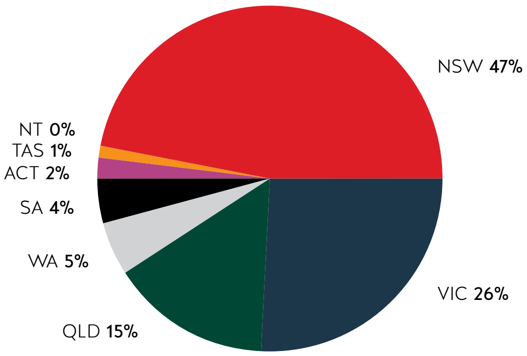
There are also situations where the Major Australian Banks have shown a temporary change in credit appetite which has allowed Pepper Money to offer products to particular segments of the market. As an example, in 2017, APRA introduced restrictions on the level of ADI lending to customers for investment purposes and also on an interest-only basis (refer to Section 2.2.1.4). Pepper Money continued to offer customers these products and was able to respond to the increased demand whilst maintaining servicing levels without needing to amend its credit risk appetite.

35. Note: Graph not drawn to scale.

3.4.1.4 Portfolio composition

Figure 54 to Figure 61 below provides an overview of Pepper Money's mortgage portfolio composition.

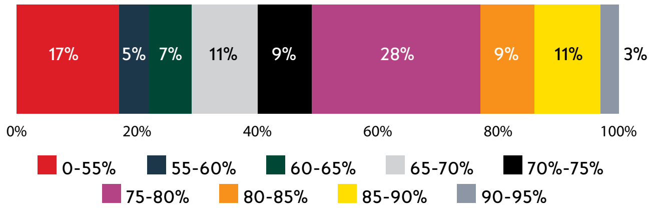
Figure 54: CY2020 originations by geography



Note: Excludes New Zealand home loans and CRE loans. By $ of originations.

Pepper Money lends to customers across Australia, with a stronger focus on New South Wales and Victoria given the enhanced presence of Distribution Partners as a distribution channel in those States.

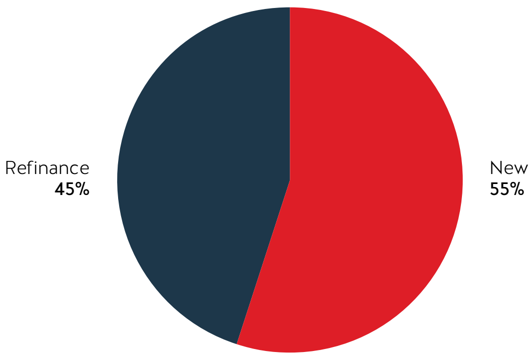
Figure 55: CY2020 originations loans by LVR



Note: Excludes New Zealand home loans and CRE loans. By $ of originations.

86% of Pepper Money's CY2020 originations had an LVR < 85%.

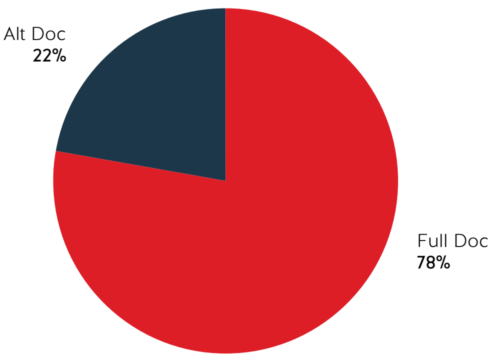
Figure 56: CY2020 originations by Loan Purpose



Note: Excludes New Zealand home loans and CRE loans. By $ of originations.

Just below half of Pepper Money's CY2020 originations are for the purpose of refinancing existing loans

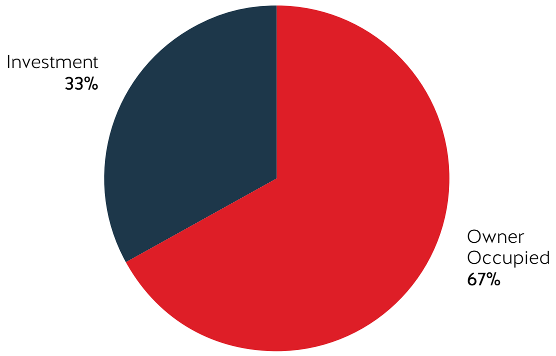
Figure 57: CY2020 originations by Loan Type



Note: Excludes New Zealand home loans and CRE loans. By $ of originations.

Pepper Money offers both Full Doc and Alt Doc loans, with the majority of Pepper Money's originated loans through Full Doc. Refer to Section 2.2.1.2 for descriptions of Full Doc and Alt Doc.

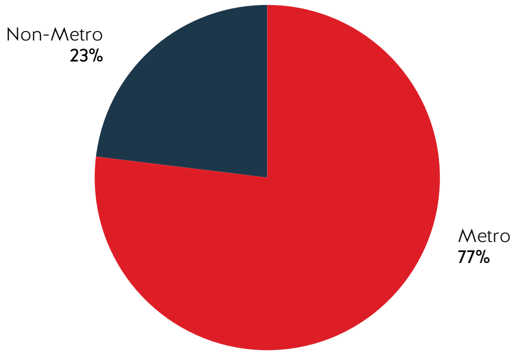
Figure 58: CY2020 originations by occupancy classification



Pepper Money offers home loans to both home owners and investors.

Note: Excludes New Zealand home loans and CRE loans. By $ of originations.

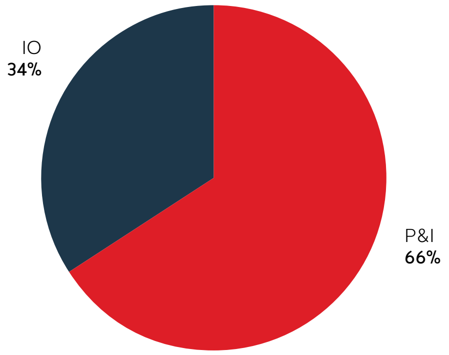
Figure 59: CY2020 originations by region



Pepper Money focuses on lending to metro areas which accounted for 77% of CY2020 originations.

Note: Excludes New Zealand home loans and CRE loans. By $ of originations. Metro categories defined as S&P Global Ratings in its RMBS postcode classification. Metro areas are predominantly within the boundaries of capital cities. Some adjustments are made to the classification based on mortgage performance traits exhibited during economic stress.

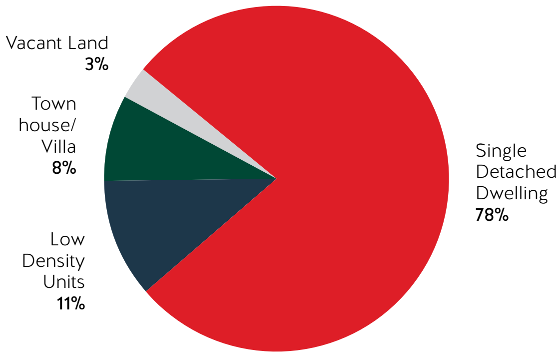
Figure 60: CY2020 originations by payment type



Pepper Money offers loans where the payment type is either principal and interest, or interest only for a period before converting to principal and interest.

Note: Excludes New Zealand home loans and CRE loans. By $ of originations.

Figure 61: CY2020 originations by quality of collateral



Pepper Money predominantly lends for single, detached dwellings. Pepper Money focuses on the quality of underlying collateral. It does not lend to high-rise, high-density apartments.

Note: Excludes New Zealand home loans and CRE loans. By $ of originations.

3.4.1.5 Recent performance of Pepper Money's mortgage product

As illustrated in Figure 62 and Figure 63 below, Pepper Money experienced significant growth in residential home loan originations between CY2015 and CY2020, with a CAGR of 13%. Its Australian residential home loan market share increased from 0.3% to 0.5% over this period.

The decline in Mortgage originations from CY2019 to CY2018 was as a result of the softening in the market caused by factors such as the Royal Commission and property price compression. In CY2020, Pepper Money wrote $3.4 billion in Mortgage originations, down 27% on CY2019 which reflects the disciplined approach taken to COVID-19 to manage credit risk by tightening lending criteria and focusing on risk-based pricing. Refer to Sections 3.9 and 4.2.7 for further details.

Over the past five years, Pepper Money's growth in originations has resulted in strong growth in AUM, as demonstrated in Figure 62 and Figure 63.

Figure 62: Loan originations by product ($ billion)

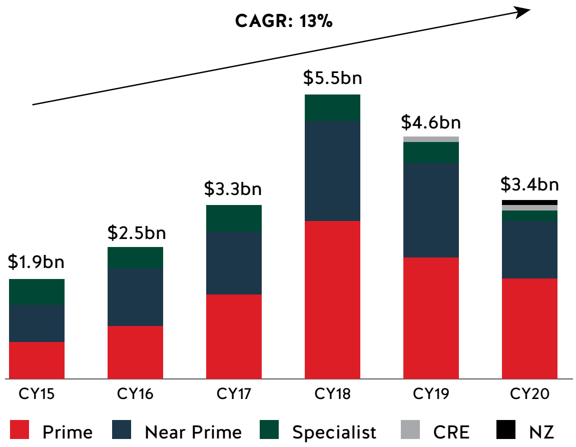
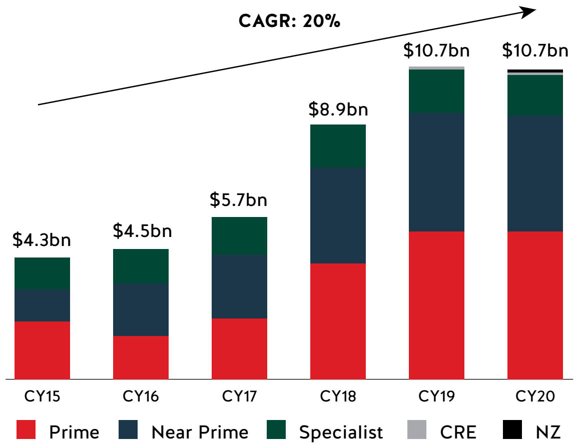


Figure 63: AUM (closing) by product ($ billion)



3.4.2 Asset Finance

Since entering the Asset Finance market in November 2014, Pepper Money has focused on providing asset finance solutions to market segments which it considers are underserved by the Major Australian Banks and other industry participants.

Pepper Money built its Asset Finance business organically through leveraging the experience and capabilities it has developed from many years of Mortgage lending, alongside the hiring of an experienced management team in 2015, to:

- develop a solid foundation for the Asset Finance product;
- deliver significant organic growth, with Asset Finance originating over $1 billion in its fifth year of operations, and $1.2 billion in CY2020 alone; and
- reach AUM of $2.6 billion as at 31 December 2020.

Pepper Money has also applied learnings from its third-party auto and equipment loan servicing activity from 2008, as well as the acquisition of a legacy auto and equipment finance portfolio from a Regional Bank in 2012.

Pepper Money currently has three key focus areas in Asset Finance: used cars; caravans, motor bikes and boats; and equipment finance under $100,000. A novated lease product was successfully launched in 2020.

As described in Section 3.5.3, Pepper Money primarily distributes Asset Finance products through a network of dealerships, specialist brokers and partnerships.

3.4.2.1 Key product features and design

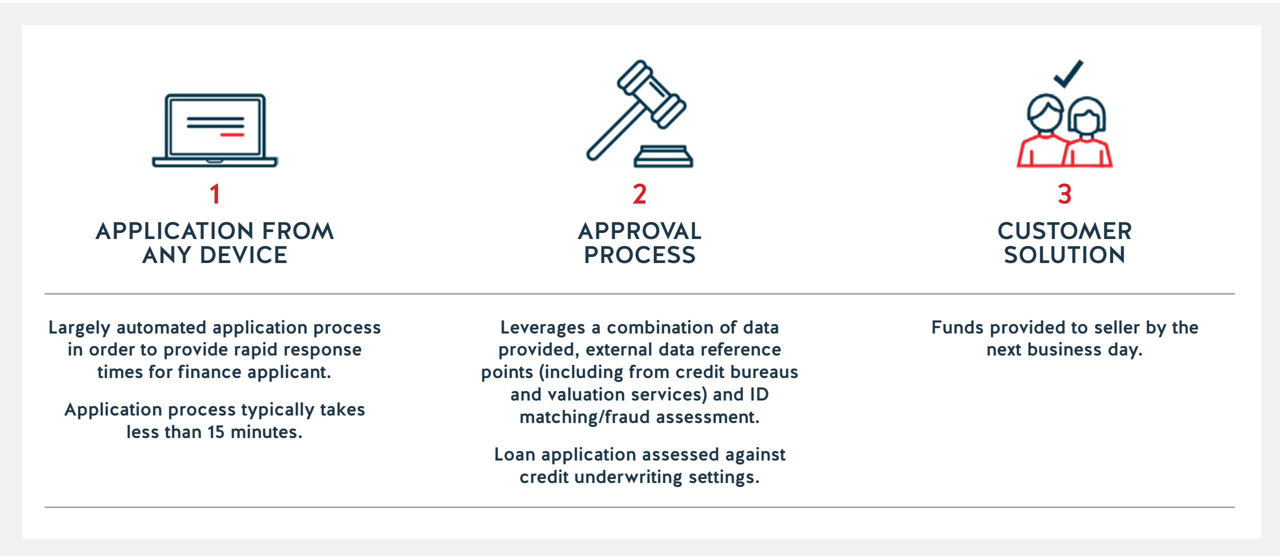
Key features of Pepper Money's Asset Finance offering include:

- **customer-centric design**: given response times are a key factor in a customer's decision-making process, Pepper Money operates with efficient turnaround times for the customer, with automated approvals within seconds. Where additional information is required, automated approvals may be provided on a conditional basis, followed by manual approvals obtained in as little as two hours to provide the customer with a solution;
- **lending solutions for a range of assets**: offers customers financing solutions for a broad range of assets, with finance available for cars, boats, caravans, yellow goods, trailers, trucks, earthmoving and agricultural equipment; and
- **assist Distribution Partners to provide customers with a solution**: Pepper Money has processes in place that are designed to service Distribution Partners and help streamline the customer application process. This includes:
  - API integration with 13 aggregator groups[36], representative of 1,089 Accredited Distribution Partners[37], to allow Distribution Partners to submit an application directly to Pepper Money through their CRM and limiting the need to re-key information;
  - focusing on responsiveness, including making BDMs available to Distribution Partners for any application queries; and
  - providing customers and Distribution Partners with a transparent credit policy and adopting consistency in policy and decision making.

3.4.2.2 Customer journey

Figure 64 illustrates the key steps in the customer journey from application to customer solution.

Figure 64: Illustrative steps in sample Asset Finance customer journey



36. As at 31 January 2021.
37. As at 31 December 2020.

3.4.2.3 Product risk tiers

As outlined in Table 8, Pepper Money has designed three key risk bands based on target customer characteristics and risk profile: A, B and C.

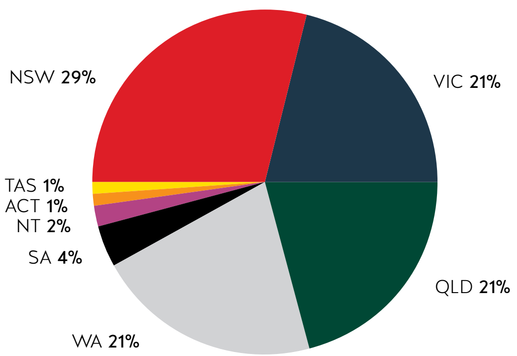
Table 8: Product offering (as at 31 December 2020)

Product	Tier A	Tier B	Tier C
Target customer segment	• Owns property • Stable employment (or stable time in business for commercial customers) • Clear credit history • Stable residence	• Long-term renter • New to job (or new to business for commercial customers) • Clear credit history	• Long-term renter • Unstable employment • Previous defaults • Limited credit history
Originations composition[38]	57.7%	31.5%	10.8%
Portfolio composition[39]	57.7%	31.0%	11.3%
Average interest rate[40]	7.4%	9.0%	12.4%
Average loan balance[41]	$25,326	$22,840	$15,570
Average loan term[42]	68 months	70 months	67 months

3.4.2.4 Portfolio composition

Figure 65 to Figure 70 below provide an overview of Pepper Money's Asset Finance portfolio composition.

Figure 65: CY2020 originations by geography

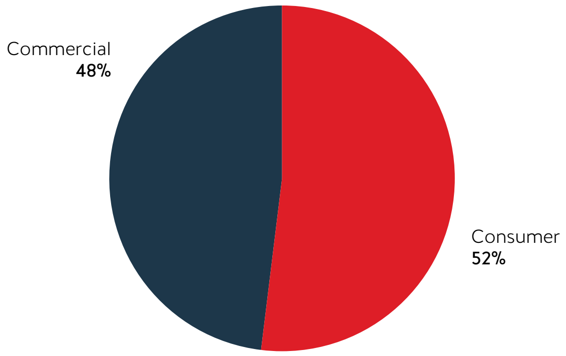


Pepper Money's loan origination is dispersed across Australia, with a focus on New South Wales, Queensland, Victoria and Western Australia. Customers are predominately consumer and metropolitan based.

Pepper Money's Asset Finance portfolio has a relatively higher representation in Western Australia given its strong relationships with key used car dealers in that State.

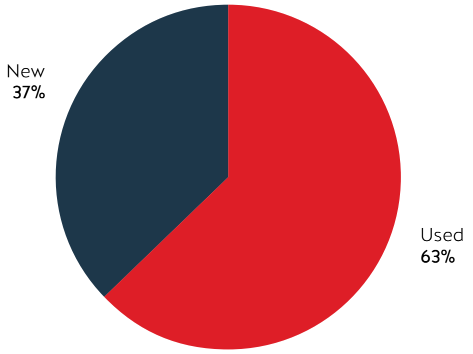
38. Asset Finance Originations composition for CY2020.
39. Composition of closing Asset Finance AUM as at 31 December 2020.
40. Weighted average interest rate, based on composition of closing Asset Finance AUM as at 31 December 2020.
41. Average balance outstanding as at 31 December 2020.
42. Average initial contractual loan term on the loan. Some loans may be refinanced before the end of their contractual term.

Figure 66: CY2020 originations by customer type



Pepper Money offers lending products to families and individuals buying cars and caravans for everyday purposes, as well as SMEs purchasing cars and equipment for their businesses.

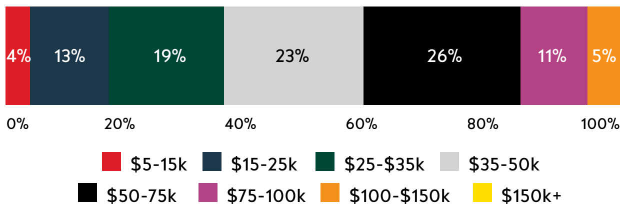
Figure 67: CY2020 originations by asset condition



Pepper Money focuses on both new and used assets, with CY2020 originations being 37% new and 63% used.

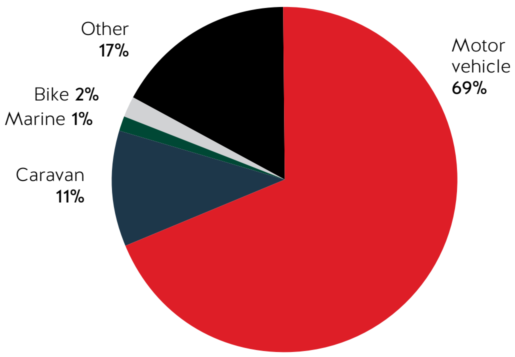
Pepper Money does not offer bailment or other forms of floorplan finance.

Figure 68: CY2020 originations by original loan size



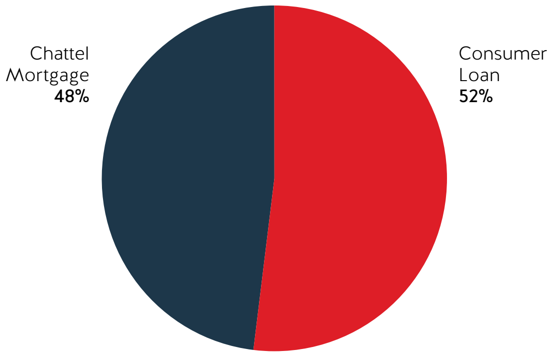
Pepper Money provides financing for a range of different loan sizes. 80% of CY2020 originations had an original loan size between $15,000 and $75,000. The focus has been on smaller ticket size and higher volume business which enables improved margin and increased fee income, alongside reducing the risk and volatility within the portfolio.

Figure 69: CY2020 originations by asset category



Pepper Money predominately extends finance for motor vehicles (69%) and caravans/recreational vehicles (RVs) (14%). The small percentage of commercial plant and equipment is a result of its strategy to focus on small ticket assets and choosing not to compete in larger, higher risk commercial assets which are generally priced at lower margins.

Figure 70: CY2020 originations by finance product



Pepper Money predominately structures finance as Consumer Loans for consumer customers, and Chattel Mortgages for commercial customers.

Pepper Money does not currently offer operating lease products and therefore is not exposed to residual value risk.

3.4.2.5 Recent performance of Pepper Money's Asset Finance product

Figure 71: Loan originations by risk tier ($ billion)

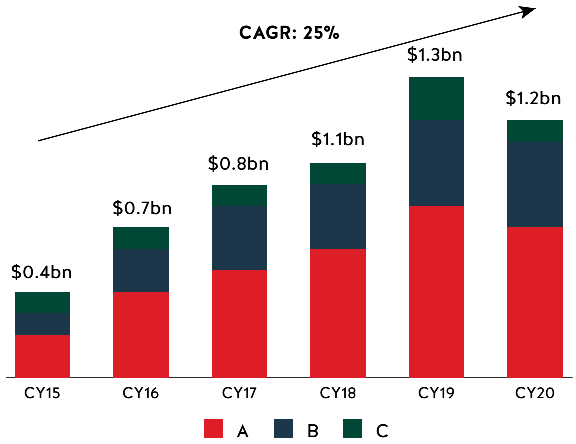
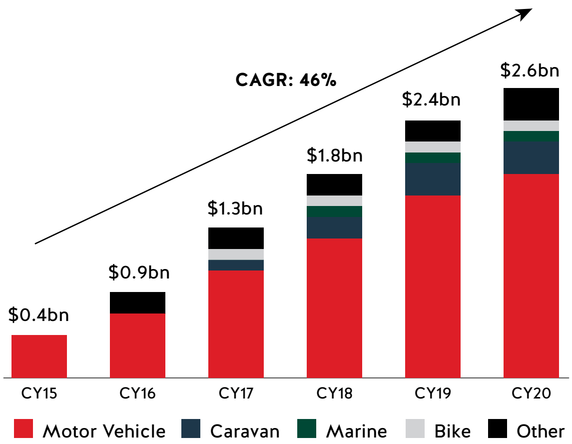


Figure 72: AUM (closing) by product ($ billion)



3.4.3 Loan and Other Servicing

3.4.3.1 Overview

Pepper Money provides ongoing management and administration for loan portfolios originated and sold by Pepper Money, and for third-party originated loan portfolios (Non-Bank Lenders and ADIs). The strength of Pepper Money's Loan and Other Servicing offering is driven by the combination of:

- 20+ years of experience from internally servicing the loans Pepper Money originates;
- approaching the servicing of third-party loans in substantially the same way as how Pepper Money services its own originated loans; and
- leveraging Pepper Money's long-term experience of being a lender to Near Prime and Specialist customers which requires a proactive and effective approach to servicing to support customers who have a higher propensity to miss payments in comparison to Prime customers.

Pepper Money established its third-party Loan and Other Servicing business in 2008, following what was perceived to be a market demand for a servicer of non-bank originated portfolios of residential home loans, CRE loans, and auto and equipment loans.

Pepper Money has also developed experience historically as a loan servicer through the acquisition of Mortgage, Asset Finance and CRE loan portfolios, with the largest being the acquisition of GE Capital's $5 billion portfolio of home loans in Australia and New Zealand in 2011.

Pepper Money's offering has evolved over time, with Loan and Other Servicing now forming part of Pepper Money's funding strategy to execute Whole Loan Sales given Pepper Money sells loans on a "servicing retained" basis (refer to Section 3.6.4.4).

Pepper Money believes that Loan and Other Servicing is strategically beneficial to the broader business, driven by the complementary fit with its lending business, including:

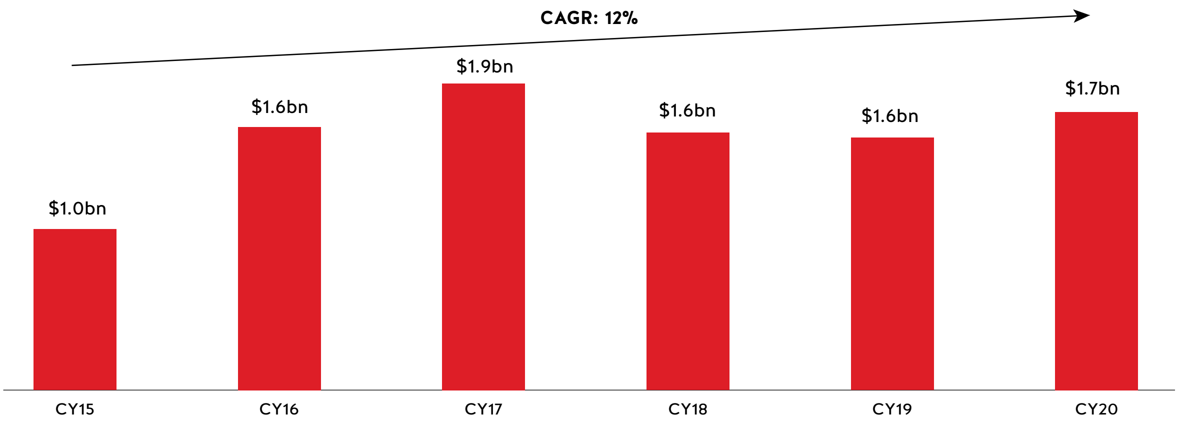
- increasing revenue diversification for Pepper Money;
- offering a defensive "annuity style" earnings stream across the credit cycle; and
- allowing Pepper Money to gain knowledge of existing and new markets and access to credit performance data, which can be used to inform Pepper Money's product design, credit underwriting practices and risk-based loan pricing.

Pepper Money's Loan and Other Servicing AUM was $1.7 billion as at 31 December 2020. Over the last 10 to 12 years, the scale of Pepper Money's third-party Loan and Other Servicing has varied with market demand for third-party servicers; however, it has been more stable in recent years due to the structured approach of Pepper Money's servicing retained Whole Loan Sales.

Pepper Money was first ranked by a global credit rating agency as an "**above average**" residential home loan servicer in May 2004 and has maintained a rating of "**strong**" from that agency since December 2011.

In Q4 2020 Pepper Money commenced Broker servicing – covering broker administration and compliance for a large aggregator. This servicing stream offers future opportunities.

Figure 73: Loan and Other Servicing AUM



Note: Loan and Other Servicing AUM as at 31 December for corresponding years.

3.4.3.2 Offering and core competencies

Loan and Other Servicing involves the management and administration of loans including customer service, collection of payments and remittance of payments to portfolio owners (generally either being ADIs or securitisation vehicles), maintenance of payment records and loan balances, and the management of arrears from early stage delinquencies through to executing repossession. Pepper Money has developed and maintained the following core competencies:

- **application of portfolio analytics**: Pepper Money analyses loan portfolios and develops customised strategies to service discrete pools of loans;
- **lender's mindset**: Pepper Money utilises its lending experience and strategies developed in-house for loan management to service portfolios in a manner that is intended to minimise arrears, maximise cash collections and mitigate loan losses; and
- **consistency of servicing standards with owned portfolios**: Pepper Money applies the same servicing standards, controls and procedures on its loan servicing offering as Pepper Money originated loans.

3.4.3.3 Distribution channels

There are two main channels Pepper Money uses to attract loan servicing customers:

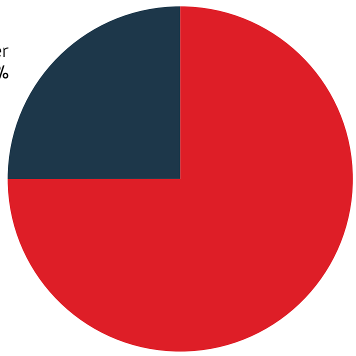
- **servicing of loans sold as part of Pepper Money's Whole Loan Sales**: for Whole Loan Sales, Pepper Money retains the servicing of the portfolio to provide an efficient cost base outcome for the purchaser of the portfolio, and also allow Pepper Money to retain greater control of the customers' experience and the relationship with the relevant Distribution Partners; and
- **servicing third-party originated loans**: historically, during times of financial stress, funders of other non-bank originated loan portfolios have, in some cases, appointed third-party servicers, such as Pepper Money, to service a loan portfolio.

In addition to the above channels, as described in Section 4.4.3, Pepper Money entered into an arrangement with a specialty lender in 2019 where the specialty lender acquired Pepper Money's personal loan portfolio on a servicing retained basis, resulting in Pepper Money continuing to service the portfolio.

3.4.3.4 Portfolio composition

Pepper Money's third-party loan servicing portfolio composition changes over time depending on market opportunities. As at December 2020, a significant majority (74%) of the portfolio under management was Australian residential home loans of which 97% was originated by Pepper Money, including portfolios sold as part of its Whole Loan Sales program.

Figure 74: Composition of servicing AUM (as at 31 December 2020)



3.5 Distribution

Pepper Money continues to grow and support its distribution network through a team of 45 BDMs[43] across Mortgages[44] and Asset Finance.

Pepper Money's key distribution strengths include:

- **strength of relationship**: Pepper Money strives to develop strong relationships with Distribution Partners by providing quality customer service, including targeting efficient application turn-around times;
- **consistency**: Pepper Money provides Distribution Partners with a consistent and transparent approach to credit underwriting, partner engagement and application processing. This allows Distribution Partners to recommend Pepper Money products to customers with confidence;
- **industry education**: Pepper Money has significant experience within, and data insights to support, the market opportunity for Near Prime and Specialist mortgage products. Pepper Money educates Distribution Partners on the market opportunity in these segments and has designed a "five-step" process to position Near Prime or Specialist products with customers. It also provides tailored marketing content for Distribution Partners; and
- **technology**: Pepper Money supports its Distribution Partners through the development of purpose-built technology. Pepper Money's technology investment aims to remove Distribution Partners' friction points surrounding an application. Refer to Section 3.5.2 for additional detail on digital tools used.

43. As at 31 December 2020.
44. Including Australian residential home loans, New Zealand residential home loans and CRE loans.

3.5.1 Mortgage distribution channels

Table 9 below provides a summary of the distribution channels that Pepper Money uses in the origination of Mortgages throughout Australia and New Zealand.

Table 9: Mortgage distribution channels

Channel	Retail	White Label	Direct
Overview of channel	Mortgage brokers managed through various aggregators	Third-party originators distribute Pepper Money products under the third-party's brand	Direct to consumer origination, through a combination of brand marketing and strategic partnerships
Split of CY2020 originations [45]	**55%**	**40%**	**5%**
Key strengths	**17,000+ Accredited Distribution Partners**[46]	**30+ White Label partners**	**Pepper Direct** 1.5 million website visitors during CY2020 3.6 million website views during CY2020

Pepper Money has a diverse distribution network of aggregator partnerships. The top five Mortgage aggregator groups accounted for approximately 51% of originations for CY2020, with Pepper Money's largest Mortgage aggregator group accounting for 16% of originations for CY2020.

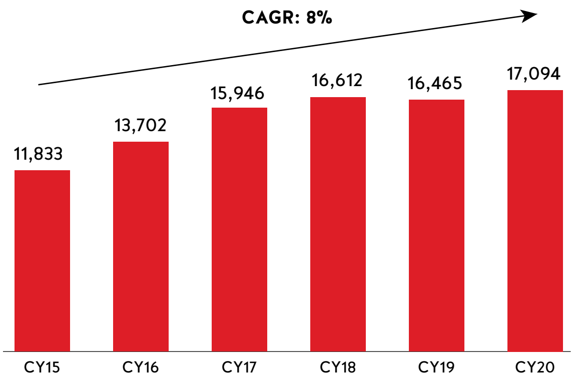
3.5.1.1 Distribution Partners

Pepper Money primarily distributes Mortgages through its Accredited Distribution Partners, who either:

- sell a Pepper Money branded product (and are classified in the Retail distribution channel); or
- sell a Pepper Money product under their own branding (and are classified in the White Label distribution channel).

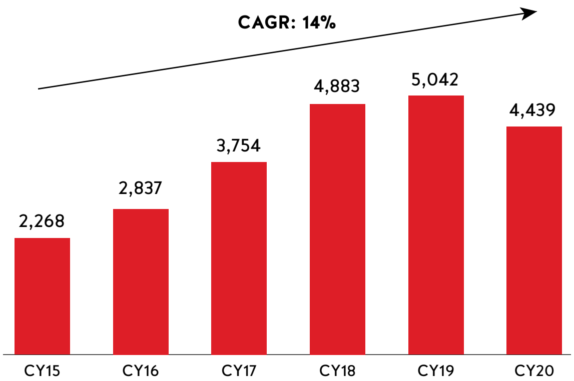
All of Pepper Money's Accredited Distribution Partners, as required by law, either hold an ACL or are an ACR of a licensee.

Figure 75: Accredited Distribution Partners



Note: CY2020 includes New Zealand.

Figure 76: Active Distribution Partners



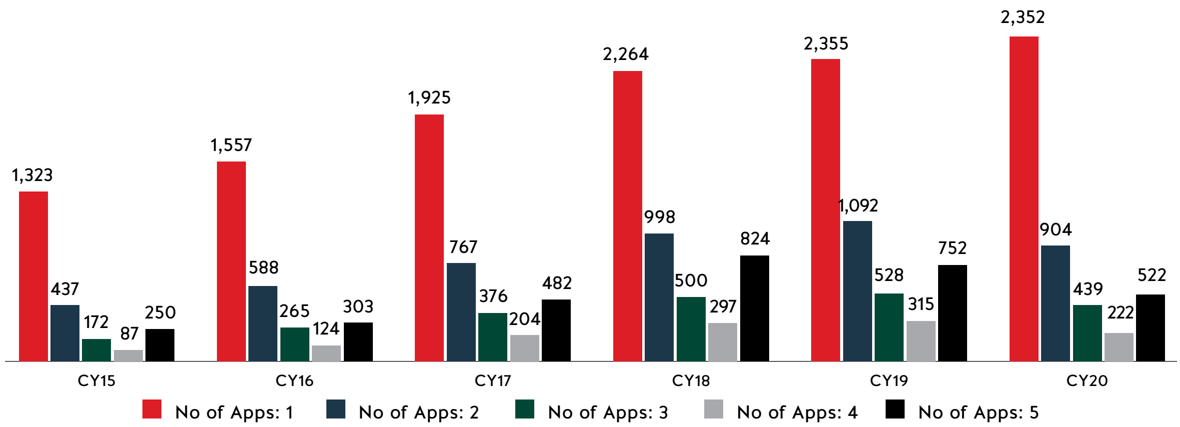
Note: CY2019 and CY2020 include New Zealand.

45. Split excludes New Zealand and CRE.
46. Accredited Distribution Partners covers Retail and White Label channels.

Pepper Money is focused on increasing the number of Distribution Partners it engages with, along with encouraging existing Distribution Partners to increasingly use Pepper Money by educating these Distribution Partners on (i) the ease of doing business with Pepper Money; and (ii) the applicability of Pepper Money's product offering to their customer base.

As illustrated in Figure 77, Pepper Money has experienced an increase in the repeat use of Pepper Money products by its Active Distribution Partners, with 26% of Active Distribution Partners submitting three or more loan applications in CY2020, compared to 22% in CY2015. Pepper Money sees an opportunity to increase the number of Active Distribution Partners submitting repeat transactions, with ongoing Distribution Partner education and the use of Pepper Money digitally enabled tools.

Figure 77: Repeat use of Pepper Money by Active Mortgage Distribution Partners[47]



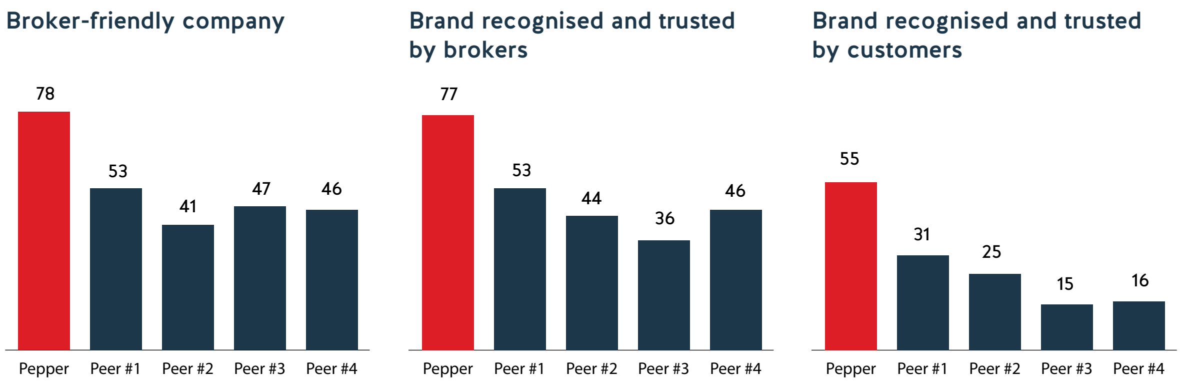
Positioning compared to peers

Pepper Money believes the recent momentum in the business is partially driven by its ability to provide its Distribution Partners with a high level of service. To monitor Distribution Partner sentiment in Mortgage products, Pepper Money has used an external consultant to undertake an annual sentiment survey.

As demonstrated in Figure 78[48], the 2020 survey had the below key findings. Pepper Money believes these characteristics help to position Pepper Money favourably compared to peers:

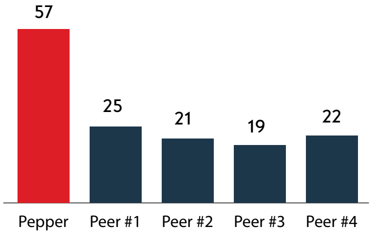
- broker-friendly company, with BDMs being responsive;
- brand recognised and trusted by brokers and customers;
- market leadership in Non-Conforming and self-employed loans;
- wide range of products to meet different customer needs; and
- strengths in its application process, including providing support during the approval process and quick approvals/turnaround times (refer to Section 3.5.2 for more details).

Figure 78: Pepper Money's performance against peers

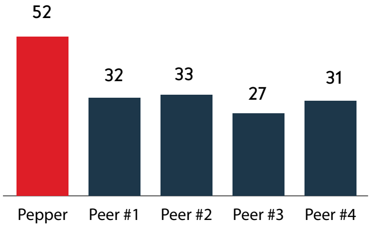


47. Includes Australia only.
48. Externally commissioned annual broker sentiment survey (conducted in 2020), Fifth Dimension Research and Consulting, published January 2021.
Sample size: Pepper Money: n=775, Peer 1: n=599, Peer 2: n=660, Peer 3: n=451, Peer 4: n=391 (the survey was prepared for Pepper Money). Australia only.

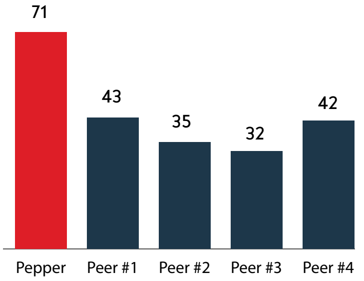
Leads the way in growing the Non-Conforming loan market



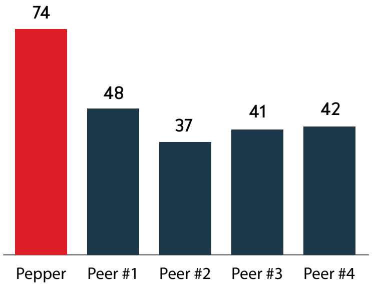
Leading specialist for self-employed loans



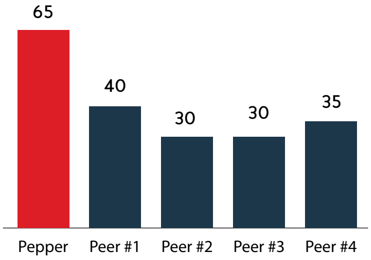
Wide range of products to meet different customer needs



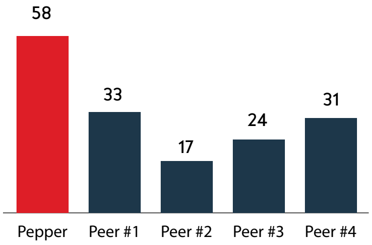
Responsive BDMs



Provides support during approval process



Quick approval/turnaround time



Source: Independent research conducted for Pepper Money in 2020 by Fifth Dimension Research and Consulting. Annual Broker Sentiment study conducted in December 2020 and published in January 2021. Total sample size n=775. Australia only.

3.5.1.2 White Label arrangements

Pepper Money currently partners with over 30 White Label partners, including brands such as Aussie Home Loans, AFG, Connective and Loan Market Group. Pepper Money leverages the strength of the distribution and brand of these partners, whilst providing products that meet customer needs. As part of the White Label agreement, Pepper Money retains all the credit and underwriting decisions internally and undertakes all the servicing and collection activities.

Pepper Money has three sub-categories within White Label distribution:

- **aggregators (70% of CY2020 White Label originations[49])**: act as an intermediary between Distribution Partners and lenders, allowing Distribution Partners to access a broader range of lenders and take advantage of technology and marketing resources;
- **White Label introducers (12% of CY2020 White Label originations**[49]): intermediary between Distribution Partners and lenders, allowing Distribution Partners to access a broader range of lenders. Unlike aggregators, White Label introducers own and manage the customer relationship; and
- **direct ACL holders (accredited Mortgage brokers) (18% of CY2020 White Label originations[49])**: companies that have direct agreements with Pepper Money to distribute loans direct to consumers utilising their own brands.

White Label products are complementary to Pepper Money's broader distribution strategy. The agreements provide White Label partners increased control over the product offering, allowing these partners to tailor the product and marketing to their client bases or target customer demographics, which may not have had an affiliation with the Pepper Money brand.

49. Composition split includes White Label products Mortgages across Australia and New Zealand.

3.5.1.3 Direct

Since the launch of the retail lending "Pepper Money" brand in 2016, Pepper Money has used a direct origination channel, with customers able to apply for a Pepper Money Mortgage online or via a call centre. Pepper Money expects this channel to continue to grow with increased market awareness of the Pepper Money brand, alongside strategic partnerships.

3.5.2 Digital technologies to support mortgage distribution

Pepper Money's purpose-built technology systems and capabilities are designed to help Distribution Partners convert more applications and provide more customers with a Pepper Money solution. Pepper Money leverages customer insights in conjunction with available industry data to identify opportunities for growth and to improve credit underwriting, partner and customer experiences and the conversion of customer applications.

Pepper Money has developed different technologies and systems to support its Mortgage distribution and implemented two key purpose-built technology systems: Pepper Product Selector™ in April 2017 and Pepper Resolve™ in March 2018.

3.5.2.1 Pepper Product Selector™

Pepper Product Selector™ is a purpose-built, online scenario assessment tool that is designed to assist Distribution Partners through the process of recommending a loan solution for their client and streamline the application process. Pepper Product Selector™ asks between 14 to 25 simple questions about a potential customer and their loan scenario. Within typically two to five minutes[50], Pepper Product Selector™ accesses the customer's credit information, conducts a product suitability assessment, and presents a best-fit Pepper Money loan solution tailored to the customer's circumstances.

Pepper Money calibrated the loan solution outcomes from the Pepper Product Selector™ by running it in parallel with manual credit assessments for the first 12 months post implementation, which helped to refine the quality, accuracy and reliability of the loan solutions presented to Distribution Partners.

Key benefits of Pepper Product Selector™ include:

- provides Distribution Partners and their customers with a real time, best-fit Pepper Money loan solution, which allows the broker to accurately position the Pepper Money solution to the customer, which may reduce the level of re-work required;
- presents the customer with an indicative loan offer, providing them with confidence that there is a potential loan solution available that fits their stated individual life circumstances;
- during CY2020, 70% of customers who submitted a PPS enquiry received an indicative offer from Pepper Money;
- generated approximately $358 million of leads per month during CY2020[51], and has generated a cumulative $14.94 billion of leads[52] since it was first implemented in April 2017;
- resulted in an average of >13% conversion since July 2020[53], when Pepper Money re-commenced origination activity; and
- allowed Pepper Money to interact with 4,500 Distribution Partners over CY2020.

50. Of the original 14 questions, certain key questions may generate additional follow-on questions taking total questions to no more than 25. The time taken reflects typical time for a Distribution Partner to answer questions, but that once broker process is complete the answer is instantaneous.
51. Monthly average for CY2020.
52. To 31 December 2020.
53. Quarterly average of lead to application conversion, between July 2020 and December 2020.

Figure 79 below provides screenshots of the Pepper Product Selector™ question form and output response.

Figure 79: Illustration of Pepper Product Selector™ question form

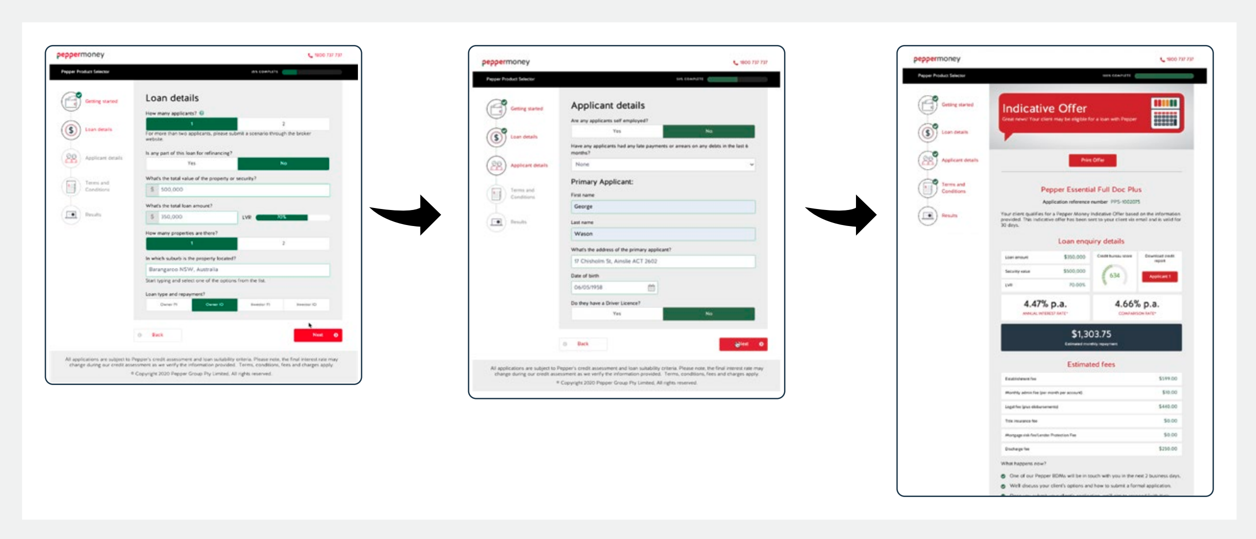
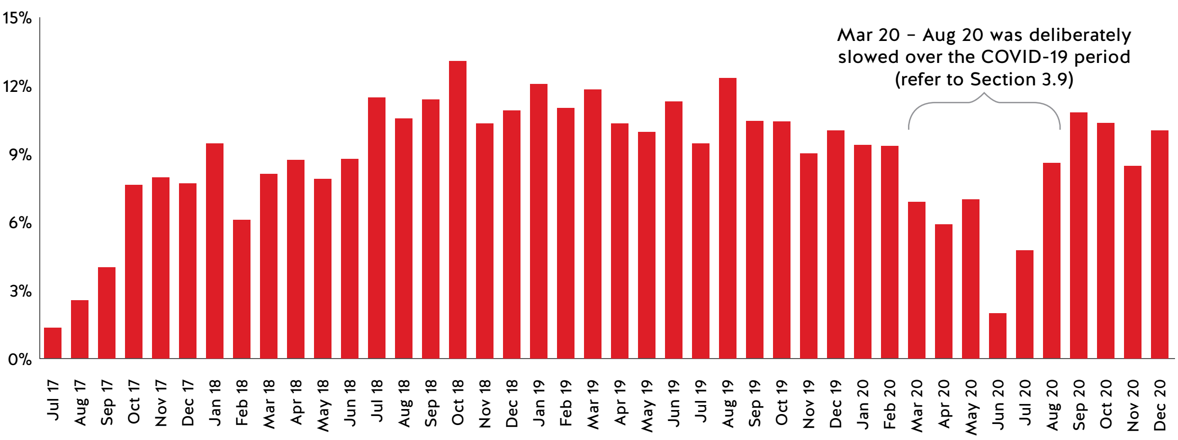


Figure 80 provides the percentage of settlements generated from Pepper Product Selector™ leads over time. Pepper Product Selector™ has had strong traction since it was first implemented in 2017, with 8% of Mortgage settlements in CY2020 having been initiated via Pepper Product Selector™. Over Q2 to Q3 CY2020, availability of PPS across Pepper Money's Distribution Partners was set at levels designed to slow origination volumes as the business addressed uncertainty in credit and liquidity conditions as a result of COVID-19.

Figure 80: Monthly Pepper Product Selector™ settlements as % total settlements



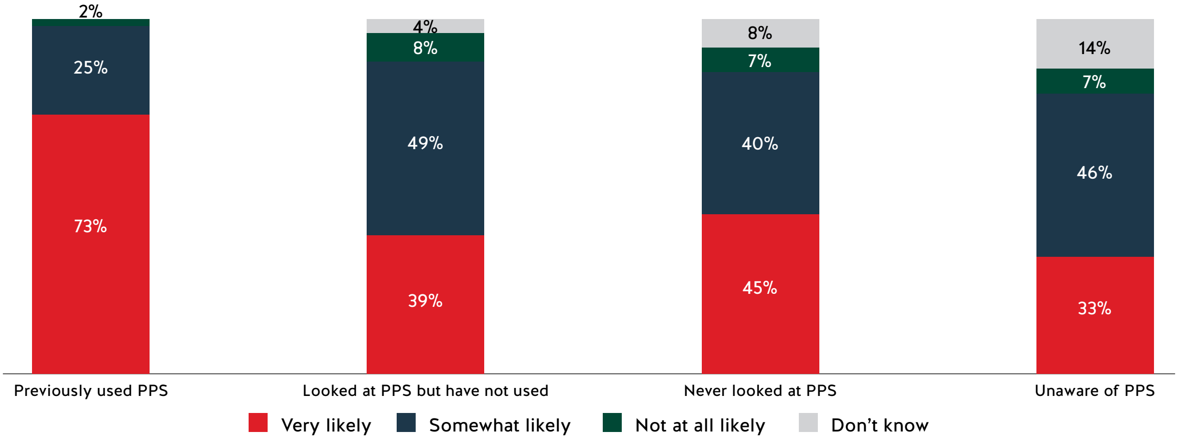
Note: Number of Pepper Product Selector™ settlements shown as a percentage of the number of Pepper Money's total mortgage settlements for a given month.

To track the impact of Pepper Product Selector™ on Distribution Partners, Pepper Money appointed an external consultant to undertake a survey for Pepper Money, which included questions on, among other things, Pepper Product Selector™. This survey was last conducted in December 2019.

Figure 81 below shows the percentage of surveyed Distribution Partners who would be likely to use Pepper Product Selector™ in the future, based on their past interaction with the tool. Pepper Money is confident in the quality of Pepper Product Selector™, with a large step change in likelihood to use the tool, from 33 – 45% "very likely" if they had not previously used it, compared with 73% after having used Pepper Product Selector™.

Survey participants cited the key barriers preventing them from utilising Pepper Product Selector were the preference for other methods, lack of information or complexity of scenarios. The key reasons Distribution Partners stated they were "very likely" to use Pepper Product Selector™ were that the tool simplified the process of choosing a product and because it appeared useful and easy to use.

Figure 81: Likelihood to use Pepper Product Selector™ in the future (2019, %)



Source: Externally commissioned annual broker sentiment survey, conducted in December 2019. Sample size: Pepper Money: n=959.

3.5.2.2 Pepper Resolve™

Pepper Resolve™ is a purpose-built digital solution designed to automatically provide Distribution Partners with an alternative loan solution for their customers, in situations where the customer has been or is likely to be declined by their first-choice lender. Pepper Resolve™ utilises APIs to integrate with the Distribution Partners' Aggregator Customer Relationship Management systems ("**CRM**"), and similar to Pepper Product Selector™, provides a best-fit Pepper Money loan solution tailored to the customers' circumstances.

The Pepper Resolve™ process is illustrated in Figure 82:

- following the submission of a loan application to another lender, initiated from the CRM, the lender typically communicates the status of the application back to the Distribution Partner through the CRM;
- where the lender message indicates the application to them is or may be unsuccessful, the CRM system is calibrated to send a sub-set of the original loan application data to Pepper Resolve™ when a Pepper Money product may be appropriate;
- Pepper Resolve™ conducts a serviceability check and product suitability assessment, and presents the Distribution Partner with a best-fit solution tailored to the customer's circumstances; and
- the Pepper Money solution is received by the Distribution Partner within seconds. This allows the Distribution Partner to present the Pepper Money loan solution to the customer as a potential alternative, at the same time as they discuss the unsuccessful loan application with the first choice lender.

As at 31 December 2020, Pepper Money had 9 active aggregator partner groups on Pepper Resolve™ and anticipates onboarding additional aggregator partners over the next 12 months. Pepper Money holds exclusive rights with aggregator partners to offer alternative loan solutions to Distribution Partners using Pepper Resolve™, as long as the aggregator partner continues to have an ongoing relationship with Pepper Money.

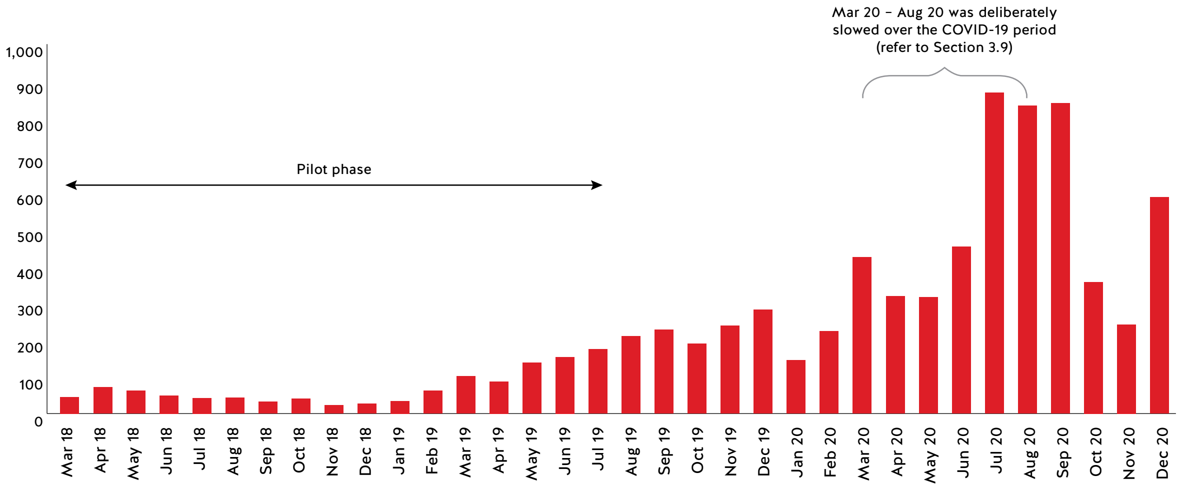
Figure 82: Pepper Resolve™ process

Key benefits of Pepper Resolve™ to Pepper Money include:

- increased awareness for Distribution Partners of Pepper Money's alternative loan solutions without the need to be familiar with Pepper Money's credit policies or products;
- allows Distribution Partners to convert more business and increase the likelihood for a customer to be offered an alternative solution rather than being turned down by the initial lender;
- when used to support an Aggregator Partner's White Label offering, creates strong brand recognition, regardless of whether the indicative offer is converted into a formal application; and
- provides Pepper Money access to Distribution Partners that, although accredited to offer Pepper Money products, may not have previously considered Pepper Money products.

As illustrated in Figure 83, Pepper Resolve™ has provided an increasing number of customer leads for Pepper Money. As at 31 December 2020, Pepper Resolve™ has been used to offer a solution to 8,101 customers who would have been declined by their first choice lender and may have been unaware of alternative loan solutions available to them[54], representing $3.8 billion of leads[55] which have been converted into $85 million of settlements[56].

Figure 83: Pepper Resolve™ monthly lead generation (#)



Note: As at 31 December 2020.

54. Number of leads generated for 12 months to 31 December 2020.
55. Volume of leads generated (approved enquiries) since Pepper Resolve inception (March 2018) to 31 December 2020.
56. As at 31 December 2020.

3.5.3 Asset Finance distribution channels

Pepper Money has established relationships with car dealerships and finance providers, with a focus on used cars and leisure vehicles. Table 10 below provides a summary of the distribution channels that Pepper Money uses in the origination of Asset Finance products throughout Australia.

Table 10: Asset finance distribution channels

Channel	Auto Broker	Commercial Broker	Car Dealer	Mortgage Broker
Overview of channel	Brokers who provide an online finance solution	SME brokers, typically focusing on equipment finance solutions	Typically large used car dealer operations	Arrange car loans alongside mortgages
Split of CY2020 originations	30%	29%	24%	17%

As illustrated in Figure 84, Pepper Money has a diverse distribution network of aggregator partnerships. The top three Asset Finance aggregator groups account for less than 40% of originations for CY2020[57].

Figure 84: Introducers and Distribution Partners with a relationship with Pepper Money

Engagement with Distribution Partners

Pepper Money is focused on increasing the number of Distribution Partners it engages with, alongside encouraging existing Distribution Partners to use Pepper Money more often by educating these Distribution Partners on (i) the ease of doing business with Pepper Money, and (ii) the applicability of Pepper Money's offering to their customer base and/or certain customer profiles.

As illustrated in Figure 85 and Figure 86 below, Pepper Money had over 1,900 Accredited Distribution Partners for its Asset Finance products as at December 2020, which has grown at a CAGR of 32% since December 2015. As at 31 December 2020, 942 or 47% of the Accredited Distribution Partners were Active[58].

Figure 85: Accredited Distribution Partners

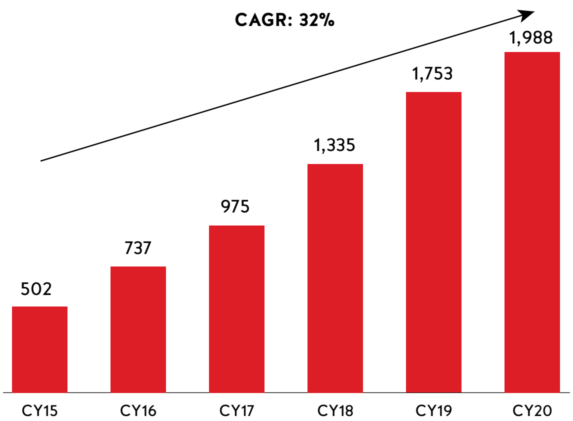
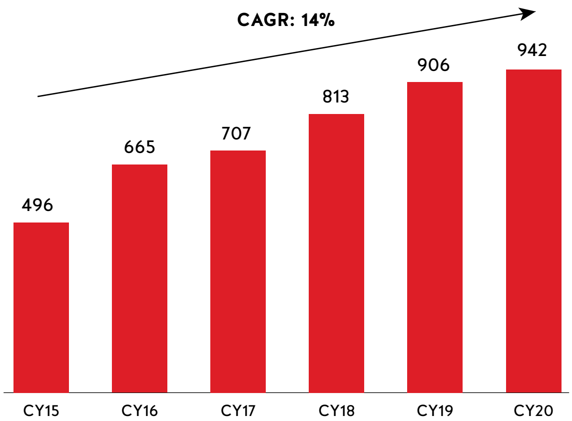


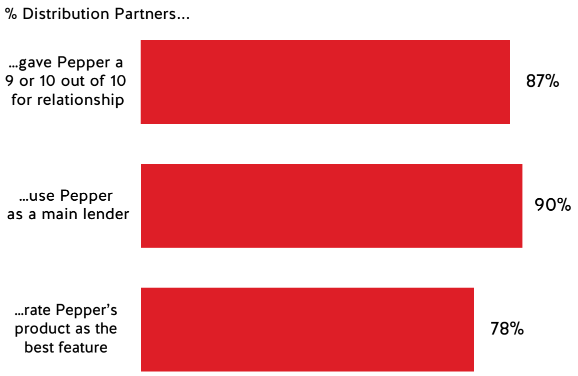
Figure 86: Active Distribution Partners



57. Originations for the 12 months to December 2020.
58. Active defined as Distribution Partners that have settled at least one deal within 12 months.

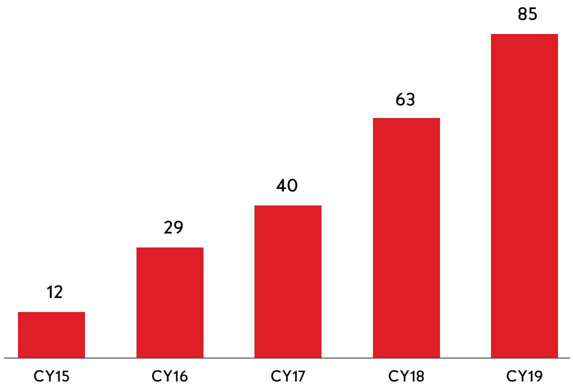
Pepper Money strives to provide strong customer service to Distribution Partners. A recent survey on Pepper Money Asset Finance Distribution Partners provided the results highlighted in Figure 87 and Figure 88 below[59].

Figure 87: Distribution Partner feedback



Note: Product is defined as policy and pricing.

Figure 88: Distribution Partner NPS (%)



Note: Pepper Money Asset Finance 2019 Customer Survey Round 6 –July/August 2019 (Conducted by Qi Insights).

3.5.3.1 Digital tools to support Asset Finance distribution

Pepper Money uses digital tools to help Distribution Partners streamline the customer's application process, including:

- Pepper Money uses API integration with Asset Finance Distribution Partners to improve customer experience, increase Distribution Partners' efficiency and reduce the time for credit decisions. The API technology suite integrates with 13 aggregator groups[60], representative of 1,089 Accredited Distribution Partners[61], to allow Distribution Partners to submit an application directly to Pepper Money through their CRM and limiting the need to re-key information;
- Pepper Money uses rules within its credit decisioning model to automate approval of eligible customers that adhere to a set of credit underwriting settings, allowing the Distribution Partner to provide these customers with "on the spot" financing, helping to improve conversion rates; and
- Pepper Money has implemented a Salesforce CRM system which provides BDMs with improved monitoring of Distribution Partner communications and applications, enabling Pepper Money to more efficiently communicate with its Distribution Partners.

3.6 Funding capabilities

3.6.1 Overview

As one of Australia's largest and most experienced Non-Bank Lenders, Pepper Money has demonstrated it is a "benchmark" Australian non-bank issuer of RMBS and ABS through the history, frequency, scale, volume and diversification of its debt-funding capital markets program.

Pepper Money's funding approach is delivered across the various asset classes where it originates loans through a combination of Warehouse Facilities provided by key relationship banks and institutional investors, Term Securitisation transactions (both public and private) and also its Whole Loan Sales program. Refer to Section 3.6.4 for further information on the sources of Pepper Money's funding.

59. Pepper Money Asset Finance 2019 Customer Survey Round 6 – July/August 2019 (Conducted by Qi Insights).
60. As at 31 January 2021.
61. As at 31 December 2020.

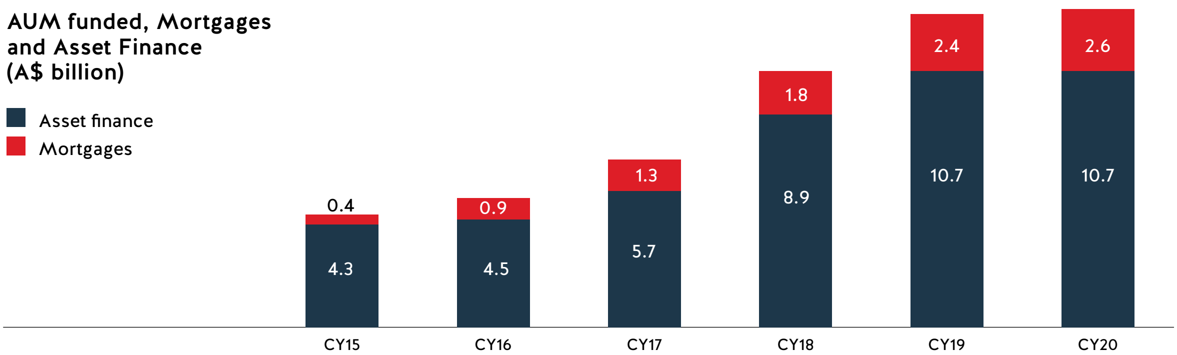
3.6.2 History of Pepper Money's debt funding expertise

Pepper Money has deep funding expertise spanning 20 years of originating loans and 18 years of accessing global capital markets, having executed 41 Public Term Securitisations[62] as well as numerous Warehouse Facilities and private Term Securitisations. As illustrated in Figure 89 below, Pepper Money has continued to broaden its funding base over time, including:

- developing a track record of raising significant volumes of senior and mezzanine debt from a range of senior and mezzanine investors to fund its loan assets. Since 2015 Pepper Money has worked with 9 additional warehouse funding partners and has increased its aggregate warehouse funding capacity from third-party providers by 3.5 times;
- establishing a proven record of Public and Private Term Securitisation funding, including raising $17.0 billion over the last four years, with access to investors in a number of different geographies and currencies;
- diversifying the asset classes it lends to (and therefore funds), with the emergence of Asset Finance as a material contribution to the business; and
- introducing different funding structures, including the development of a growing, programmatic Whole Loan Sales Program (commenced in 2016).

The factors above have strengthened Pepper Money's funding platform and, in turn, the Company's resilience.

Figure 89: Progression of AUM and funding capabilities over time



		2015	2016	2017	2018	2019	2020
Revolving Warehouse Facilities[63]	# Facilities	6	7	7	8	10	10
	# Funders (excluding Pepper Money)	6	5	6	12	13	15
	Total Facility Limit (excluding Pepper Money)	$2.2bn	$3.2bn	$3.5bn	$5.4bn	$7.1bn	$7.5bn
Term Securitisations[64]	# Term issuances	3	2	7	6	6	6
	Cumulative # term issuances	19	21	28	34	40	46
	Annual volume of issuance	$1.2bn	$1.5bn	$3.25bn	$4.7bn	$4.2bn	$4.8bn
	Cumulative issuance	$6.8bn	$8.3bn	$11.5bn	$16.2bn	$20.5bn	$25.3bn

62. For the period 2003 to 31 December 2020.
63. Excluding Settlement Warehouse.
64. Includes both Public and Private Term Securitisations.

3.6.3 Debt funding strategy and key strengths

Pepper Money's debt funding strategy is structured to provide ongoing, efficient funding for the business to support growth and to manage through periods of market disruption. The funding approach is designed to deliver the following benefits:

- access to efficient, scalable funding, enabling Pepper Money to support forecast growth in lending volumes;
- access to broad loan eligibility criteria across its funding facilities, enabling Pepper Money to meet the needs of a wide range of loan customers and capitalise on market opportunities;
- capability to originate through economic and market cycles, enabling Pepper Money to better serve the evolving needs of its loan customers and Distribution Partners through a range of market conditions; and
- stability of funding, supported by diversity across multiple financiers, markets, currencies, funding structures and facilities.

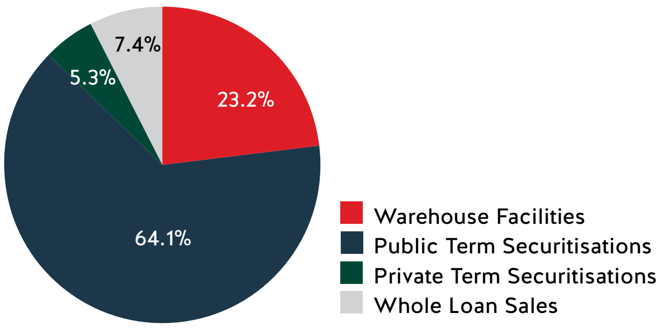
There are a number of strategies Pepper Money implements to develop and manage its funding capacity under normal market conditions, including:

- attracting a diversified set of senior and mezzanine funding partners for its Warehouse Facilities;
- developing long-term relationships with funders;
- negotiating and adapting eligibility criteria and other terms that apply to Warehouse Facilities to provide flexibility with loan originations;
- managing Warehouse Facility and unused capacity;
- staggered maturities of Warehouse Facilities; and
- programmatic execution of both Private and Public Term Securitisations, as well as Whole Loan Sale transactions.

The key strengths of Pepper Money's funding strategy, which help to support funding capacity, are displayed in Figure 90.

Figure 90: Funding strengths

Diversified funding structure
Funding composition (as at 31 December 2020)



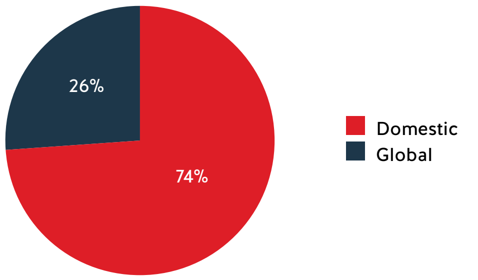
Pepper Money uses a range of different funding strategies to engage with a broad range of investaors.

For example, Pepper Money has diversified its term funding to include regular Private Term Securitisations and Whole Loan Sales in addition to Public Term Securitisations.

Note: Outstanding loan balance as at 31 December 2020 used for Whole Loan Sales. For all other categories, the outstanding note balance as at 31 December 2020 was used. Includes Settlement Warehouse and Amortising Warehouse Facilities.

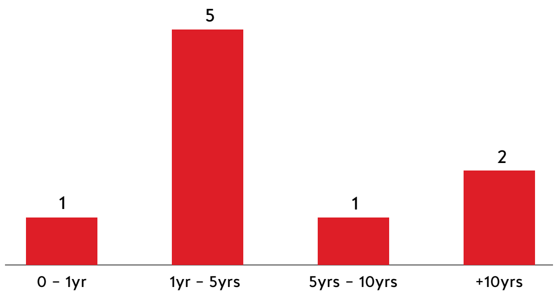
Long-term, diversified bank relationships for revolving Warehouse Facilities

Total Warehouse Facility commitments provided by banks, by geography (as at 31 December 2020)



Note: Excludes Settlement Warehouse and Amortising Warehouse Facilities.

Length of relationship (as at 31 December 2020)



As at 31 December 2020, Pepper Money had funding relationships with 15 financiers. Of those, Pepper Money has relationships with nine banks across its various Warehouse Facilities, with plans to further expand the number of lenders in 2021:

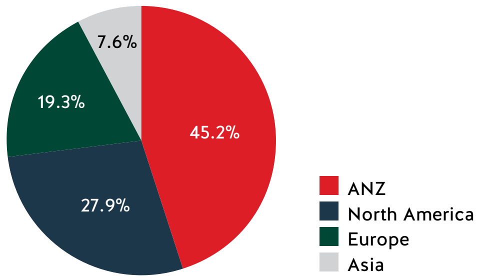
- *Domestic senior financiers include three of the Major Australian Banks, which have a 9 to 14 year relationship with Pepper Money, and an additional regional bank; and*
- *International senior financiers include five large global banks, including one that became a new funder for Pepper Money during CY2020.*

Additionally, Pepper Money has relationships with other international banks who may provide derivative transactions or bond distribution services in respect of Public Term Securitisation Transactions.

The diversified portfolio of banks reduces the reliance on any one funder and provides scale to be able to access additional funding if required.

Global investor base in term issuances

Public and private term issuance investors (at the time of issuance, from 2010 to 31 December 2020)



Pepper Money has had over 100 individual bank and institutional investors participate in its term transactions post 31 December 2010 (at the time of issuance), spread across different geographies.

Pepper Money has an established platform across different currencies (USD, EUR, AUD) and uses a variety of funding structures (for example, securities with different tenors and repayment profiles) to attract investors with different investment preferences.

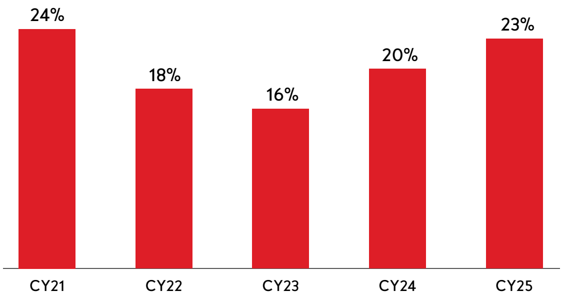
Focus on brand and quality of issuances

- ✓ Called all deals at first available opportunity (including during the GFC).
- ✓ No charge-off[65] to any securities in a Pepper Money transaction.
- ✓ Arrears levels are generally maintained within range of market indices for all asset classes.

Pepper Money has a track record of strong performing securitisations.

65. No charge-off means that all investors in Pepper Money RMBS and ABS transactions received 100% of the principal payments due.

Staggered funding maturities to minimise refinance risk



Pepper Money has staggered the maturities of its Warehouse Facilities and Term Securitisation Facilities for the next five years.

Pepper Money ensures Warehouse Facilities for the same asset class do not mature at the same time to reduce potential refinance risk.

Note: Maturity profile based on total outstanding note balance as at 31 December 2020. Does not include Warehouse Facilities undrawn capacity. The maturity date for both Public Securitisation Transactions and Private Securitisation Transactions is the first date on which the call option may be exercised for each respective transaction. The respective call dates for the Sparkz 1, Sparkz 2, and Sparkz 3 transactions are estimated based on the projected amortisation of each transaction. Includes Settlement Warehouse and Amortising Warehouse Facilities.

Funding capacity[66]

Funding capacity as at 31 December 2020:

Prime: 5.9 months[67]

Non-Conforming: 10.1 months[67]

Asset Finance: 14.3 months[67]

Pepper Money targets Warehouse Facilities that have capacity to provide flexibility around access to wholesale debt capital markets, as well as funding capacity during periods of capital market disruption.

3.6.4 Overview of sources of funding

Pepper Money currently has five different funding sources to support its residential mortgage loans and other financial assets (referred to in Section 3.6 collectively as **loan assets**) and operations:

- **Warehouse Facilities**: limited recourse Funding Vehicles established by Pepper Money and provided by funding partners that finance the origination or purchase of new loan assets, or the purchase of loan assets from Term Transactions to facilitate the exercise and fulfilment of the call options;
- **Public Term Securitisations**: a pool of loan assets initially funded through one or more Warehouse Facilities are grouped together and sold to a new Funding Vehicle, which then issues securities against those loan assets to investors in public wholesale capital markets;
- **Private Term Securitisations**: funding transactions that are similar to Public Term Securitisations but which result in Pepper Money raising funds from a single investor or a small number of investors;
- **Whole Loan Sales**: sale of pools of loan assets to an unrelated buyer at an agreed price, being a premium to the par value of the loan assets with Pepper Money being appointed to service the sold portfolio. Post sale, the buyer of the portfolio will benefit from the economic return on the assets but will be exposed to the credit risk of the assets[68]; and
- **Cash Resources (including cash funded via Pepper Money's corporate debt facility)**: used to fund Pepper Money's investment in Junior Securities in Warehouse Facilities and Term Securitisations, investment in CRR Securities to meet credit risk retention requirements, funding of various loan assets (predominantly seed pools for new asset classes) and other operating expenses.

66. Funding capacity is subject to change as a result of origination levels into the warehouses, repayment levels on both warehouse facilities and term securitisations, as well as the exercise of call options on Term Securitisations and planned Term Securitisations.
67. Includes both Public and Private Term Securitisations.
68. Subject to standard representations and warranties provided by Pepper Money.

3.6.4.1 Warehouse Facilities

Pepper Money uses Warehouse Facilities to fund the origination of new loan assets. Warehouse Facilities are revolving lines of credit that are structured to allow Pepper Money to fund new originations up to agreed facility limits, subject to certain eligibility criteria and other conditions. Upon origination, loan assets are transferred into Funding Vehicles where they are funded by third-party senior and mezzanine warehouse funding partners, together with Junior Securities (also referred to as "first loss" capital) contributed by Pepper Money.

Pepper Money's Warehouse Facilities are typically separated by product and jurisdiction, whether Prime or Non-Conforming (including Near Prime and Specialist) residential mortgages, Asset Finance, or Commercial Real Estate loans[69].

One of the Warehouse Facilities Pepper Money uses for Australian mortgage loans is provided by an Australian Major Bank and is structured as a settlement facility where mortgage loans can be funded for up to 30 days. This allows all mortgage loans to be funded into a single Funding Vehicle at the point of origination, and then on-sold to other Warehouse Facilities.

The majority of funding for Warehouse Facilities is provided by highly-rated, regulated financial institutions. These funding partners have been highly supportive of Pepper Money over time, providing continuous funding support throughout the Company's operating history.

Warehouse Facilities are typically repaid when loan assets are transferred to a longer-term funding structure (such as Public or Private Term Securitisations). As at 31 December 2020, Warehouse Facilities comprised 23.2% of Pepper Money's funding[70].

As at 31 December 2020, Pepper Money had:

- 10 separate revolving Warehouse Facilities with an aggregate limit of $7.8 billion (including funding limits for Pepper Money)[71], with 15 third-party funders providing senior and/or mezzanine funding, including three Major Australian Banks;
- one short-term Warehouse Facility used for the settlement of Australian Mortgages (as described above) (Settlement Warehouse); and
- four amortising Warehouse Facilities with $385 million outstanding, which fund previously acquired loan books that were not originated by Pepper Money (**Amortising Warehouse Facilities**).

Table 11 provides an overview of Pepper Money's revolving Warehouse Facilities (used for loan originations) as at 31 December 2020.

Table 11: Revolving Warehouse Facilities as at 31 December 2020

Asset category	AU Mortgages – Prime	AU Mortgages – Non-Conforming[72]	AU Commercial Real Estate	AU Asset Finance	NZ Mortgages
# facilities	3	3	1	2	1
# funders (including Pepper Money)	8	7	3	10	2
Limit (including Pepper Money)	$2.2b	$2.5b	$0.2b	$2.5b	NZ$0.3b
Revolving period end date	1 to 11 months	4 to 9 months	16 months	2 to 20 months	15 months
# facilities with maturities in CY2021F	**3**	**3**	**0**	**1**	**0**
Limit of facilities with maturities in CY2021F	**$2.2b**	**$2.5b**	**0**	**$0.8b**	**0**

69. There are a small number of Warehouse Facilities that can support both Australian Prime and Non-Conforming mortgages.
70. Where total funding is comprised of the outstanding note balance of Warehouse Facilities, Public Term Securitisation, and Private Term Securitisation, and the outstanding loan balances of Whole Loan Sale portfolios as at 31 December 2020.
71. This compares with $7.5 billion (which excludes Pepper Money tranches of warehouse facilities) as disclosed in Figure 89.
72. Includes Near Prime and Specialist.

Pepper Money's Warehouse Facilities are set with 12 to 36-month maturities (a 12-month maturity is the most common), resulting in facilities being reviewed and extended on a regular basis. Upon each extension of a Warehouse Facility (i.e. upon each "roll date"), the funders and Pepper Money have the opportunity to renegotiate the interest margin, fees and other terms and conditions of the relevant facility.

Subject to contractually agreed minimum notice periods, funders may choose to not renew their respective credit facilities. Should a funder elect to not renew a Warehouse Facility, Pepper Money has refinancing options available including Public Term Securitisations, Whole Loans Sales, refinancing to other existing facility providers, or funding with new alternative funding partners.

During the CY2021F Forecast Period, three Australian Prime Warehouse Facilities with a total commitment of $2.2 billion, three Australian Mortgages Non-Conforming Warehouse Facilities with a total commitment of $2.5 billion, and one Australian asset finance Warehouse Facility with a total commitment of $0.8 billion will mature. Given Pepper Money's long history of successfully managing financial assets in Australia, as well as the Company's long-term relationships with the relevant funders, Pepper Money believes it is unlikely that funders will not renew their Warehouse Facilities on similar terms at the respective roll dates.

As at 31 March 2021, Pepper Money has extended the majority of facilities with a revolving period end date noted in Table 11 of three months or less in the ordinary course of business and on terms consistent with those in place as at 31 December 2020. No existing Warehouse Facility funder has advised Pepper Money of an intention not to renew the Warehouse Facilities they fund at the end of the current revolving period.

3.6.4.2 Public Term Securitisations

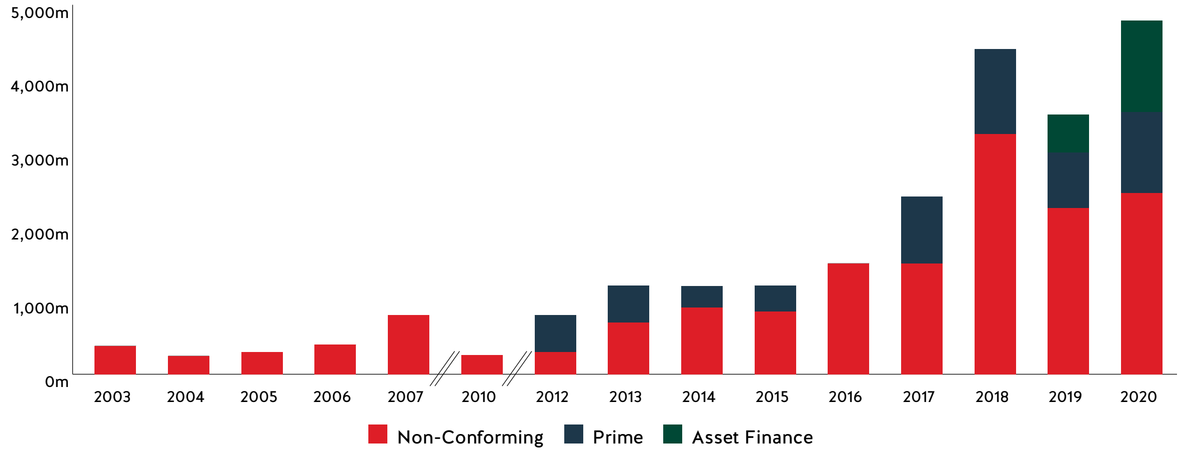
Periodically, Pepper Money's Warehouse Facilities are partially refinanced through Public Term Securitisations. Public Term Securitisations involve the creation and issuance of securities whose payments of principal and interest are derived from the cash flows generated by the pool of loan assets those securities fund. Pepper Money first originates loan assets into its Warehouse Facilities. When a loan asset pool reaches a sufficient size for a Term Securitisation, the loan assets are sold to new Funding Vehicles where they are "securitised" through the issuance of senior and mezzanine securities to investors in public wholesale capital markets. Investors typically include domestic and international banks, insurance companies, asset managers, institutional funds and other professional fixed income investors. Junior Securities are also issued as part of Public Term Securitisations. The Junior Securities are typically funded and retained by Pepper Money, along with rights to the residual income from the Funding Vehicles.

Public Term Securitisations are structured to be long-term transactions where the funding term matches the amortisation of the underlying loan assets. Although the legal maturity of the securities on issue is matched to the legal maturity of the longest underlying loan assets in the asset pool, Public Term Securitisations typically include a call option which Pepper Money may, but is not obliged to, exercise. Exercising the call option results in the redemption of the corresponding securities at par value. Market convention for ABS and RMBS is for securities to be called at the first available opportunity. As such, Pepper Money considers the exercise of such call options to be important for maintaining the confidence of its investors and their continued willingness to invest in its Term Securitisations at favourable pricing levels. As part of its focus on brand and quality, Pepper Money has exercised the call option in all of its Term Securitisations at the first available call date (including during the GFC when, at the prevailing time, Term Securitisation funding may have been more efficient than what was otherwise available to Pepper Money under its Warehouse Facilities).

Since 2003, Pepper Money has been a regular issuer in Public Term Securitisation markets across multiple structures, currencies and asset classes and has built relationships with a broad group of domestic and international investors.

Pepper Money's track record of Public Term Securitisations is demonstrated in Figure 91 below.

Figure 91: Pepper Money Public Term Securitisations – Aggregate Annual Issuance



Note: All public deals as at 31 December 2020.

Pepper Money has attracted over 100 primary investors that participated in its Term Securitisations (at the time of issuance) since 31 December 2010. Pepper Money has earned a strong reputation in both the Australian and international securitisation markets. This reputation is underpinned by its ability to regularly issue new securities to match market demand and support its ongoing funding requirements. This is driven by Pepper Money's:

- volume of issuances into public securitisation markets, totalling $23.4 billion[73];
- consistent behaviour of exercising call options at the first available call date;
- strong loss performance (refer to Section 3.7.8.5, Figure 94 and Figure 95);
- with all losses covered by excess spread with no charge off to any securities in any Pepper Money Term Securitisation;
- Pepper Money's commitment to ongoing meetings with investors to provide updates on programs and information with respect to any transaction in the market; and
- ongoing reporting via Pepper Money's investor website.

As demonstrated in Table 12 below, Pepper Money currently has three public Term Securitisation platforms, which are differentiated by the types of loan assets financed in each platform.

Table 12: Public Term Securitisation Transactions (as at 31 December 2020)

Series	Pepper Residential Securities ("PRS")	I-Prime and other Prime Transactions	Sparkz
Assets financed	Predominantly for Non-Conforming Australian mortgages, with a portion of Prime Australian mortgages in most transactions	Prime Australian mortgages only	Australian Asset Finance receivables
# of issuances up to 31 Dec 2010	8	0	0
# of issuances after 31 Dec 2010	20	10	3
# of total issuances	28	10	3
Amount raised by total issuances	$16.1 billion	$5.5 billion	$1.7 billion
Balance outstanding (as at 31 December 2020)	$6 billion	$2.5 billion	$1.3 billion
Average issuance size since 31 Dec 2010	$0.69 billion	$0.55 billion	$0.58 billion
# investors since 2010	94	53	32

73. As at 31 December 2020. Issuance levels do not include refinancing notes.

3.6.4.3 Private Term Securitisations

Private Term Securitisations are similar to Public Term Securitisations, with just a few differences:

- generally issued to one or a small number of senior and mezzanine investors;
- often structured on a more bespoke basis to meet the particular needs of the participating investor(s) and therefore drive incremental demand and/or favourable pricing;
- may include a revolving period during which Pepper Money can continue to sell loan assets into the Funding Vehicle; and
- may be rated or unrated. Unrated deals generally apply the same methodology as rated deals with the agreed credit support generally aligned to rating agency criteria.

Private Term Securitisations are complementary to public issuance allowing Pepper Money to build closer relationships with larger investors and assist in managing the sequencing and frequency with which Pepper Money issues into the public markets. Private Term Securitisations are generally attractive to large investors are seeking a large allocation of securities that may not be available to them in a Public Term Securitisation, and/or a particular structure that better meets the needs of a particular investment portfolio (for example, longer tenor or duration securities and/or a certain currency).

3.6.4.4 Whole Loan Sales

Pepper Money regularly sells pools of loan assets (predominantly Prime Mortgages) at a premium to their par value as part of its Whole Loan Sales strategy. As part of the sale arrangements, Pepper Money is appointed as the servicer of the loan assets by the buyer and thereby continues to receive an ongoing monthly fee following the sale of the asset pool. Servicing fees are based on the loan asset balance over time.

Pepper Money views Whole Loan Sales as complementary to its broader-term funding model because it:

- reduces the amount of funding required from public wholesale debt capital markets;
- allows Pepper Money to originate certain types of loan assets at volume levels that it might otherwise not do on the basis such loan assets have characteristics in line with agreed parameters of loan assets that may be sold to committed or repeat Whole Loan Sales buyers;
- provides an opportunity for Pepper Money to recycle capital in support of continued loan asset originations; and
- generates an upfront cash payment to Pepper Money that can be used to fund its investment in Junior Securities for other facilities.

3.6.4.5 Corporate Debt Facility

Refer to Section 4.5.5.

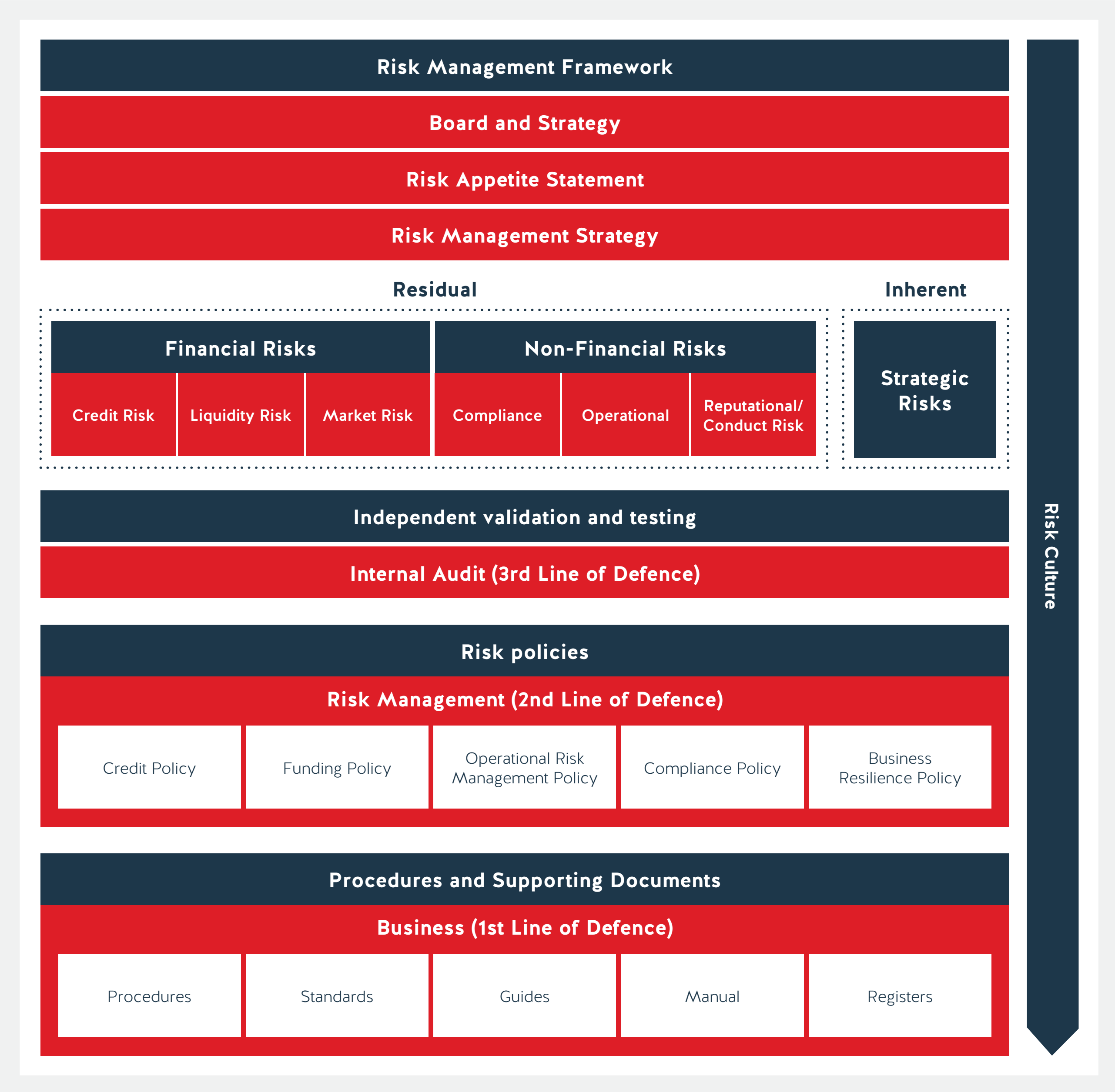
3.7 Risk management framework

3.7.1 Overview

Risk management is an integral part of Pepper Money's business model. Pepper Money operates in adherence to its Risk Management Framework ("**RMF**"), which provides an effective and efficient approach to govern and oversee Pepper Money. This includes monitoring and mitigating risks to allow the business to deliver its strategy.

Figure 92 provides an overview of Pepper Money's RMF. The RMF promotes increased risk awareness throughout the organisation and facilitates better operational and strategic decision making. It promotes a strong risk culture and ensures that operations are consistent with the nature and level of risk that Pepper Money is willing to accept, both now and in line with any expected changes in the legislative and regulatory environment.

Figure 92: Pepper Money's Risk Management Framework ("RMF")



3.7.1.1 Governance structure

The Pepper Money Board of Directors has the ultimate accountability for risk management in the organisation, including setting the risk appetite of the business (documented in the Risk Appetite Statement). Day-to-day responsibility for risk management is cascaded through the delegation of individual accountability, with reporting and escalation facilitated through the Risk Governance structures. Policies, procedures and limits are defined to ensure activities remain within an understood and appropriate level of risk.

Identification, measurement monitoring and reporting of risks is essential to inform day-to-day and strategic decision making. This is supported by an effective system of controls to ensure that risks are mitigated to an acceptable level.

All employees have a role to play in risk management. Fundamental to the RMF is the implementation and operation of the "three lines of defence" model, which considers Pepper Money's business and functional structures. The model delineates management accountabilities and responsibilities over risk management and the control environment, thereby creating a robust control environment to manage inherent risks.

3.7.1.2 Key components of the RMF

Key components of the RMF applied to the management of Pepper Money's business include:

- **Risk governance**: Pepper Money has established a risk governance through a comprehensive committee structure to support the management of risk, including the Audit and Risk Committee (Board), Credit Committee (Management), Product and Pricing Committee (Management) and Asset and Liability Committee (Management);
- **Three Lines of Defence**: Pepper Money operates under the "three lines of defence" model to ensure risks are identified and issues are escalated, with a clear separation between the first, second and third line of defence responsibilities:
  - Line 1: business and operational management are accountable for management of risks and controls associated with business activities;
  - Line 2: Pepper Money's Risk Management and Compliance function provides oversight, assurance and advice as well as establishing and communicating the risk management frameworks, policies and practices to assist the first line in the management of risks and controls; and
  - Line 3: internal audit provides independent assurance on the design and operating effectiveness of Pepper Money's risk management activities;
- **Culture, training and awareness**: The Board operates with risk management as a key focus and has implemented a "tone from the top" approach, with the importance of risk culture driven from the Board to the management team and then across the organisation. This includes operating with an awareness of the three lines of defence, Pepper Money's strategy and risk appetite and an understanding of how this translates to individual roles, responsibilities and day-to-day processes. The risk culture is reinforced through regular training and communication across all levels of the business;
- **Policies and procedures**: Pepper Money has the required understanding of and adherence to law and regulations across the business. This helps to inform policies, business processes and procedures that cover all aspects of lending and loan servicing. These include but are not limited to: credit, business process, loan documentation, collections and litigation, complaints procedures, accounting, investor reporting, AML and system usage;
- **Risk escalation, monitoring and reporting**: Pepper Money has established risk monitoring procedures alongside a positive risk-informed culture that endorses the escalation of incidents, including the escalation of compliance-related incidents. Risk reporting is designed to enhance improved decision making. Pepper Money's risk systems allow for a holistic and integrated approach to enterprise risk and compliance, as well as incident and issue management. In addition, Pepper Money uses data and system-driven analytics to undertake analysis of credit risk, stress testing modelling and concentration analysis, including a suite of automated reports and dashboards; and
- **Risk management infrastructure**: Pepper Money employs several technology tools which facilitate the management of risk within the business. These tools sit across the first and second lines of defence and perform several functions.

3.7.2 Compliance risk

Pepper Money is committed to complying with all applicable laws, regulations, codes of conduct and standards of good practice relevant to the business through the development and maintenance of a risk and compliance framework that is embedded in the way Pepper Money conducts its business.

Pepper Money has compliance policies and supporting documentation that are designed to ensure compliance with regulation and applicable laws, which are subject to regular review to ensure they remain current; and has a compliance monitoring program in place to monitor adherence to policies.

3.7.3 Liquidity risk

Liquidity Risk is the risk of an adverse impact to the earnings or operations of Pepper Money that may result from having insufficient funds to meet obligations when they become due, customer demands for funds or any other financial obligations. This includes liquidity obligations with respect to Pepper Money's AFSL financial requirements.

Pepper Money has implemented a liquidity framework within its funding strategy which is designed to ensure sufficient funds to support new loan originations and pay maturing liabilities through a pre-defined time horizon as well as meeting specific liquidity position requirements. Pepper Money conducts stress scenario testing on a regular basis to ensure it can operate under a wide range of operating conditions.

3.7.4 Market risk

Market risk is the risk of adverse impact to the earnings or operations of Pepper Money resulting from changes in market rates and prices. Market risk for Pepper Money includes interest rate risk which is impacted by basis risk, floating versus fixed rate risk and currency risk.

Pepper Money's treasury function actively monitors interest rate risk and financial data detailing mismatches between asset and liability interest rate duration and deploys strategies to mitigate the risk through a number of mechanisms including the ability to re-price loans and enter hedge positions when risk levels approach or exceed planned risk appetite.

Pepper Money is exposed to currency risk, which is predominantly as a result of its New Zealand Dollar exposure. Pepper Money manages its currency risk by matching the currency of loan receivables and funding, and by monitoring the cash flow requirements of the business on an ongoing basis.

3.7.5 Operational risk

Operational risk is the risk to the earnings or operations of the business from inadequate or failed internal processes, human error and system failures, or external events. This includes risks such as cyber security, internal and external fraud, data, IT and other business disruption and system failures and general process management.

Pepper Money has specific capabilities, policies and procedures to manage and monitor these operational risks. These include processes for customer identification, credit assessment including income and expense verification and the use of Pepper Money technology and systems as well as monitoring and testing as it relates to these risks.

Examples of how Pepper Money monitors these risks are below:

- **cyber security**: recognising the size and complexity of the threat, Pepper Money has dedicated resources to operate and continue to improve the maturity of its cyber security control framework;
- **internal and external fraud**: Pepper Money has a fraud framework and policies in place and continues to evolve its strategies, processes and controls to manage, monitor and respond to the risk of application fraud committed by any party. This includes a combination of customer identification checks alongside verification processes. This helps to recognise the continuously evolving threat external fraud perpetrators pose to Pepper Money and the industry in general. Pepper Money also has in place an internal fraud policy and processes to detect and manage instances of internal fraud and continues to evolve and enhance fraud prevention and detection;
- **data**: strong data governance and controls allow Pepper Money to protect its data, and customer data, to ensure adherence to privacy laws. Data is utilised by Pepper Money appropriately evaluate the credit risk of a potential customer as well as monitor and report on the performance of its portfolio; and
- **IT and other business disruptions and system failures**: there is a risk of disruption to Pepper Money's business activities, due to an externally driven crisis, the failure of information technology platforms or system failures. Pepper Money has increased the scale and capability of its shared service operations in Philippines, to enhance flexibility to work across multiple geographic locations in any event of disruption in one workplace.

3.7.6 Strategic risk

Strategic risk is the risk of lower than planned value creation from changes in the business environment (caused by macro-economic conditions, competitive forces, technology, regulatory, political and social trends and customer preferences) or as a result of new strategic initiatives which may not deliver their full anticipated value or impact negatively on existing operations and businesses.

The strategic planning process governs the development and management of Pepper Money's strategic risks.

3.7.7 Reputational and conduct risk

Reputational and conduct risk arises from negative perceptions on the part of customers, Distribution Partners, funders, shareholders or regulators that can adversely affect Pepper Money, which can arise from inappropriate, unethical or unlawful behaviour on the part of management or employees.

Pepper Money has a number of controls in place to manage reputational and conduct risk including:

- Governance Framework to support a customer centric culture;
- reward and incentive structures that focus on behaviour;
- recruitment and training policies for new and existing staff that raise awareness of reputation and conduct risk;
- whistleblower policies and processes that provide a channel for the identification and escalation of misconduct, alongside protecting the identity of the whistleblower;
- conflicts of interest policies and processes that apply to all staff and Directors;
- complaints handling policies and procedures that stipulate a standardised process to handle customer complaints that prioritises a fair outcome for the customer, in line with Pepper Money's licence requirements; and
- incident and remediation management procedures that balance fairness and customer outcomes.

3.7.8 Credit risk

3.7.8.1 Credit risk framework

Pepper Money has a strong, established credit risk framework that allows a consistent credit assessment process for each customer. The key elements of the credit risk framework include:

- **governance**: Pepper Money has established Executive Risk and Credit committees to manage and implement its clearly defined risk appetite and consequent credit risk framework;
- **credit risk policies**: provide the rules to determine whether Pepper Money will lend to a specific customer, capturing qualitative and quantitative data relating to the customer profile, customer requirements and objectives, data from credit bureaus, assessment of the collateral, legislative obligations and other factors;
- **credit procedures**: outlines Pepper Money's process to assess, verify, price and approve a loan application from a customer (as outlined in Section 3.7.8.2);
- **arrears management and collections**: procedures in place to manage situations of non-payment of loan repayments; and
- **portfolio monitoring**: reporting and monitoring on the performance of loan portfolios.

3.7.8.2 Credit procedures

Pepper Money's underwriting philosophy and credit procedures have developed from its lending experience over more than 20 years for Mortgages and five years for Asset Finance. Pepper Money ensures that procedures are in place to meet responsible lending obligations. There are several key aspects of Pepper Money's credit procedures:

- **risk-based pricing**: Pepper Money employs a risk banding hierarchy for all loan products, and prices each accordingly;
- **assessment undertaken by Pepper Money**: Pepper Money is solely responsible for all aspects of the underwriting and credit assessment process. No decision making is delegated to Distribution Partners (including under any White Label arrangement) or any other external parties. All loan applications are assessed by a qualified Pepper Money credit risk staff member prior to final approval;
- **independent credit and sales team**: the credit risk team operates independently from the sales team;
- **servicing view to assessment**: Pepper Money always underwrites loans on the customer's ability to pay, not merely on the value of the collateral;
- **Responsible Lending obligations**: Pepper Money ensures that credit offered to consumers is "not unsuitable", in adherence with its Responsible Lending obligations; and
- **DLA limits and QA**: Pepper Money's credit risk staff are experienced and are provided with Delegated Lending Authorities after successful completion of intensive training programs. Quality Assurance ("**QA**") programs are implemented to monitor the quality of underwriting decisions on a sample basis.

3.7.8.3 Portfolio monitoring

Pepper Money leverages its data and system-driven analytics capabilities to efficiently monitor portfolio performance and inform its decisions on credit risk.

Key features of the process include:

- **automated dashboards**: dashboards connected to the data warehouses allow Pepper Money to monitor and analyse the performance of the portfolio;
- **analysis of portfolio profile distribution**: analysing the portfolio concentration, geographic exposure and composition by loan type;
- **vintage curve analysis**: analysis of arrears and loss rates by period of origination;
- **credit modelling of future expected losses**: in accordance with AASB9 to determine the levels of collective provisions and for internal forecasting of expected future losses and application to product strategies; and
- **stress testing**: analysis conducted on a regular basis is used to inform Management of the potential credit losses arising from a severe, but plausible, economic downturn. Stress testing scenarios use key macroeconomic assumptions (unemployment rate, cash rates, GDP growth, property prices) observed in a severe economic downturn to model the impact on Pepper Money's Mortgage and Asset Finance portfolios.

3.7.8.4 Arrears management and collections

Pepper Money has a bespoke approach to collections and arrears management which focuses on delivering a fair and reasonable outcome to the customer and Pepper Money.

When a customer faces a situation that leads to them missing a loan repayment, Pepper Money has an arrears management program, including a dedicated hardship and arrears management team that supports the customer through the process. Key components of the program include:

- identifying customers' situations early;
- responding to situations quickly in order to implement workable solutions;
- developing a relationship of trust and understanding with customers;
- being transparent with customers about the process and the options available to them;
- being respectful to an individual customer's circumstances;
- providing support and access to services that can assist customers where needed;
- significant investment in people, including the employment of highly trained collectors; and
- significant investment in technology in this area.

Pepper Money also has hardship policies and procedures in line with legislative requirements to identify and assist borrowers experiencing hardship, including a suspension or reduction of regular loan payments, conversion of repayments to interest only for a defined short-term period, capitalisation of arrears and allowing the borrower sufficient time to facilitate the orderly sale of the property/asset. Pepper Money can identify hardships at any stage through the collection process and will consider the appropriate assistance on a case-by-case basis.

Pepper Money's approach to assist its customers includes the following aspects:

- when a customer misses a payment, Pepper Money attempts to contact them on the first available business day after the payment is registered in the system as missed;
- in this first interaction Pepper Money seeks to understand whether the customer missed their payment due to an inadvertent event or whether there is an event that will lead to a longer-term situation;
- a large share of customers that miss their payments do so because of a simple mistake and Pepper Money is able to work with the customer and resolve the missed payment early;
- for a customer that has an event that has led to financial difficulty, Pepper Money will first try to understand the customer's situation through the conversation, and then commence a dialogue of what options are available to them;
- if the situation is short-term, Pepper Money works with its customer to find a suitable arrangement which is mutually beneficial and will clear their arrears; and
- where a customer's situation is longer-term then other options might need to be considered including the sale of a property or asset.

Throughout all situations, Pepper Money seeks to keep in regular contact with its customers and has services to assist customers in case they need to consider a sale of the underlying property including:

- services to assist the customer in finding an appropriate real estate agent for their property and to help prepare the property for sale;
- assisting in finding rental accommodation;
- assisting with moving costs; and
- providing contact details for financial counselling and relevant health services.

Pepper Money continues to make ongoing investment in the systems and people that support the operation of its collections unit.

3.7.8.5 Credit outcomes

Pepper Money uses a range of different indicators to monitor and assess the performance of its loan portfolio. Three key indicators of credit quality and loan loss performance that Pepper Money uses are:

- **cumulative vintage loss performance**: represents the principal not ultimately recovered on a cohort of loans originated in a particular period, divided by the cohort's original loan principal;
- **cumulative collective and specific provisions**: represents the cumulative specific and collective provisions expressed as a proportion of AUM by month; and
- **delinquency rates**: represents the percentage of the portfolio (by lending AUM) where the customer has not made the full payment of interest or principal for a specified number of days past the agreed payment date. This is measured through a calculation of the number of monthly missed payments outstanding.

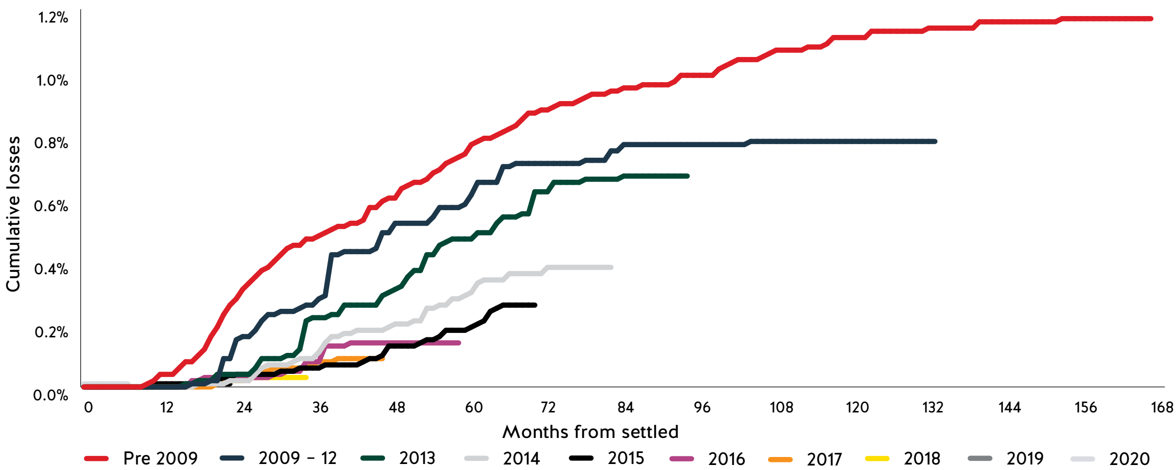
Mortgages

Figure 93, Figure 94 and Figure 95 below show the cumulative loss rates as at 31 December 2020 for yearly cohorts for Non-Conforming and Prime Mortgages allowing the comparison of loss performance for different cohorts at similar stages of their maturity.

The data shows the consistent reduction in loss rates for the recent cohorts of Mortgage loans and materially lower loss rates on Prime products. For the Non-Conforming portfolio, the notable improvement of loss rates for yearly cohorts following 2008/2009 was driven in part by a tightening of lending criteria for the Specialist lending category following the GFC, as well as a shift in the concentration towards Near-Prime customers, which accounted for 75% of the Non-Conforming originations in CY2020[74].

Loan losses typically vary by State, with Western Australia ("**WA**") having elevated incurred net losses representing 57% of Mortgage losses in CY2020. Pepper Money has been reducing its exposure to WA, which accounted for approximately 5% of Australian residential home loan originations for CY2020.

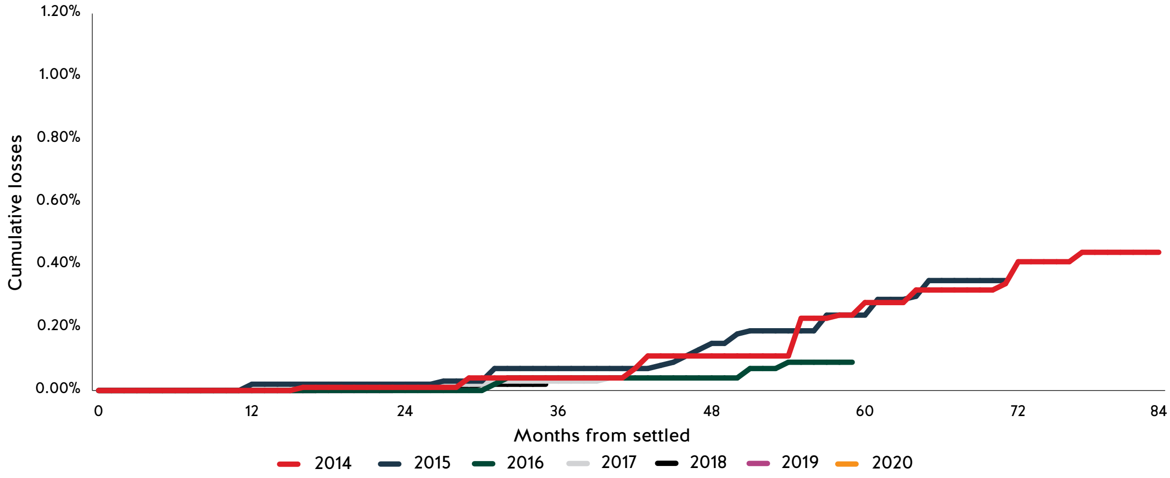
Figure 93: Mortgages – Cumulative loss curves by vintage: Non-Conforming



Source: Company data. Data as of 31 December 2020.

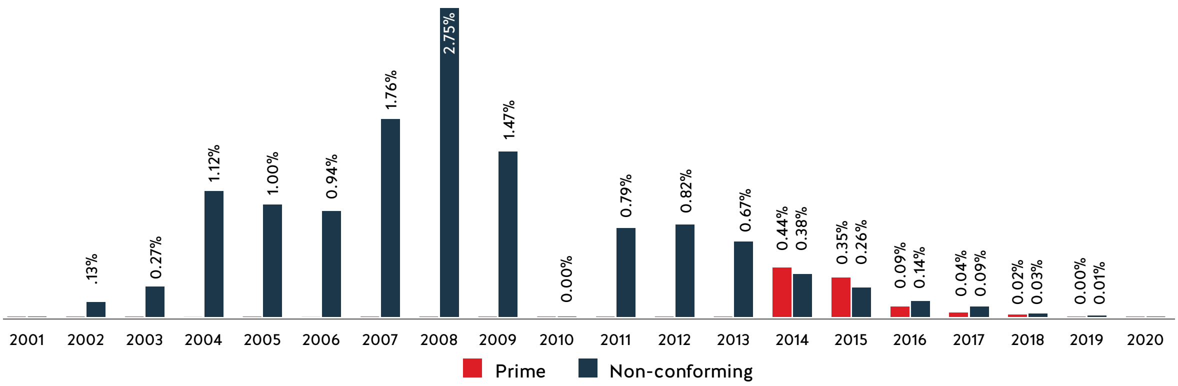
74. Excludes New Zealand and Commercial Real Estate.

Figure 94: Mortgages – Cumulative loss curves by vintage: Prime



Source: Company data. Data as of 31 December 2020.

Figure 95: Mortgages – Cumulative loss by vintage



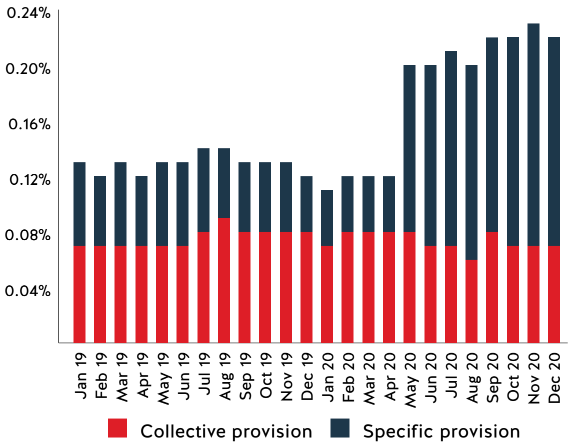
Cohort	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Non-conforming																				
Loans originated ($bn)	0.0	0.2	0.2	0.3	0.4	0.7	0.9	0.1	0.0	0.0	0.2	0.4	0.8	1.0	1.2	1.6	1.7	2.5	2.2	1.3
Specialist (%)		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	54%	45%	39%	28%	28%	22%	18%	16%
Prime																				
Loans originated ($bn)														0.4	0.7	1.0	1.6	3.0	2.3	1.9

The 12-month cumulative provision rate by month for Mortgages is illustrated in Figure 96, which demonstrates combined provision rates were historically between 0.11% and 0.14% before May 2020. This increased to a peak of 0.23% in November 2020, driven by higher collective provisions.

Figure 97 shows in the months of March 2020 to May 2020 there was an increase in the level of 90+ delinquencies in the Mortgage portfolio, with the Non-Conforming loans exhibiting a more significant rise. The percentage does not include loans that were placed on COVID-19 hardship arrangements during this time.

Beyond this initial period and excluding COVID-19, Pepper Money however has observed arrears in line with forecast expectations with a slight increase to the end of 2020 in line with normal annual seasonality.

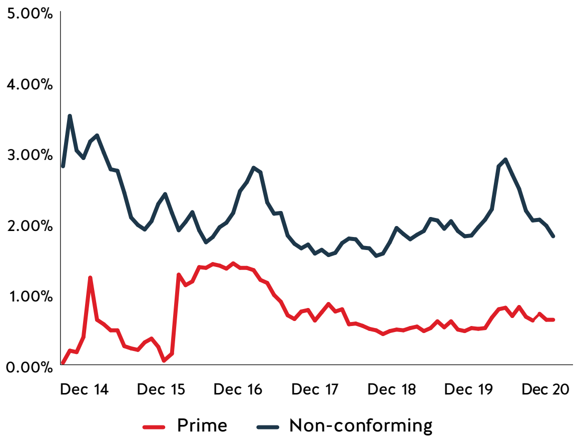
Figure 96: Mortgages – 12-month cumulative collective and specific provisions, expressed as a % of AUM including COVID-19 impacted loans



Source: Company data. Data as of 31 December 2020.

Note: Excluding the impact of COVID-19, mortgage provision rates have trended downward, and was at 0.07% as at December 2020. The method to exclude COVID-19 provisions was to net off provisions related to any loan that was flagged as being in COVID-19 assisted hardship at the end of a given reporting period. Cumulative provision is reported based on Pepper Money funding structure, not by loan classification. Asset Finance cumulative provision as at December 2020 was understated by $2.6m due to the nature of funding structure, which has been reflected in Mortgages.

Figure 97: Mortgages – Delinquencies (90+ days past due) excluding COVID-19 impacted loans: Prime and Non-Conforming



Source: Company data. Data as of 31 December 2020.

Note: The method to exclude COVID-19 arrears was to net off arrears related to any loan that was flagged as being in COVID-19 assisted hardship at the end of a given reporting period, from the numerator (balance of loan in arrears), with no adjustments made to the denominator (AUM).

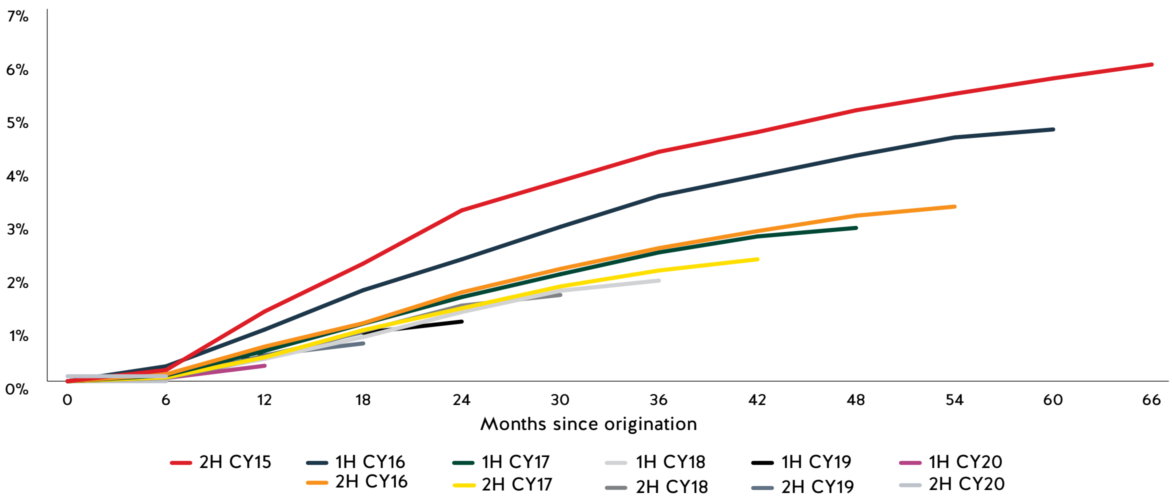
Including COVID-19, non-conforming 90+ days arrears peaked at 6.6% in July 2020, and were 1.96% as at December 2020.

Pepper Money began originating Prime home loans in 2014. The first 12 months of delinquencies for Prime is less reflective of underlying performance given the small volumes of issuance and the time lag required for loans to develop to arrears.

Asset Finance

Figure 98 below shows the cumulative vintage loss rate for each six-month cohort for Asset Finance. The data indicates a material decrease in the loss curves reflecting an improvement in performance as a result of the introduction of a new credit scorecard in November 2016, refinement of Pepper Money's credit appetite, incorporating continual feedback from the collections team, educating Distribution Partners on Pepper Money's policy and appetite and ongoing education and training of the credit team.

Figure 98: Asset Finance – Semi-annual loss vintage curves

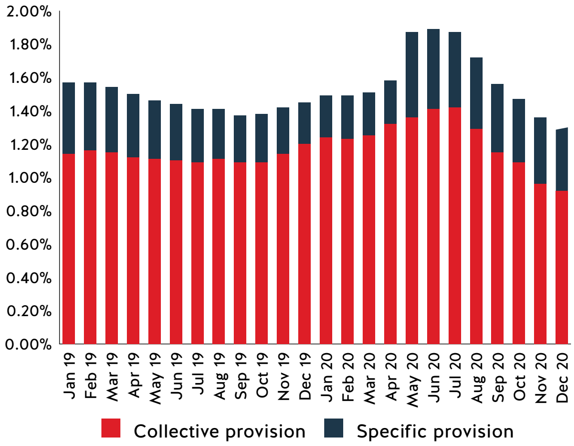


Cohort	2H CY2015	1H CY2016	2H CY2016	1H CY2017	2H CY2017	1H CY2018	2H CY2018	1H CY2019	2H CY2019	1H CY2020	2H CY2020
Loan originated ($m)	219	305	359	374	431	482	567	582	694	538	675
Cumulative loss (%)	5.95%	4.73%	3.28%	2.88%	2.29%	1.89%	1.62%	1.12%	0.71%	0.29%	0.00%

In addition, Pepper Money also looks at the 12-month cumulative provision rates and delinquency rates to provide an earlier indication of the credit performance of the portfolio. As illustrated in Figure 99, the 12-month cumulative provision rate for Pepper Money's Asset Finance loans has decreased from 1.57% in January 2019 to 1.30% in December 2020, after peak in June 2020 of 1.89%, driven by improvements in specific provisions, despite COVID-19.

Figure 100 shows an increase in December 2020 arrears, which was the result of a change in processing late stage arrears – an increase in resource time dedicated to preventing loans reaching charge-off stage (at 121 days). This has short term negative impacts to arrears figures with medium to longer term benefits for loss figures.

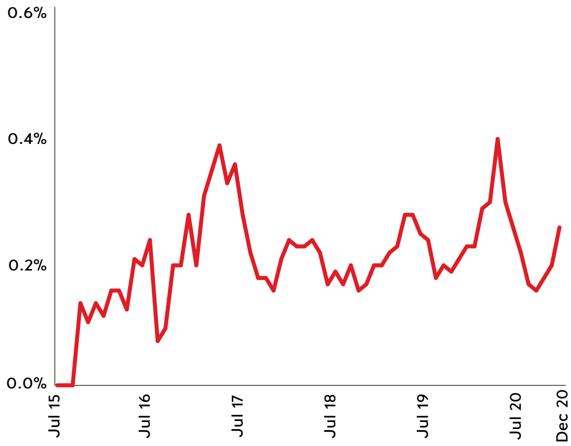
Figure 99: Asset finance – 12-month cumulative collective and specific provisions, expressed as a % of AUM including COVID-19 impacted loans



Source: Company data. Data as of 31 December 2020.

Note: Excluding the impact of COVID-19, asset finance provision rates peaked at 1.63% in June 2020, and are at 1.00% as at December 2020. The method to exclude COVID-19 provisions was to net off provisions related to any loan that was flagged as being in COVID-19 assisted hardship at the end of a given reporting period. Cumulative provision is reported based on Pepper Money funding structure, not by loan classification. Asset Finance cumulative provision as at December 2020 was understated by $2.6m due to the nature of funding structure, which has been reflected in Mortgages.

Figure 100: Asset Finance – Delinquencies (90+ days past due) excluding COVID-19 impacted loans



Source: Company data. Data as of 31 December 2020.

Note: The method to exclude COVID-19 arrears was to net off arrears related to any loan that was flagged as being in COVID-19 assisted hardship at the end of a given reporting period, from the numerator (balance of loan in arrears), with no adjustments made to the denominator (AUM).

The peak shown in April 2020 is due to Pepper Money not being able to exclude COVID-19 related loans until May 2020. Including COVID-19, 90+ day arrears peaked at 2.8 % in July 2020, and were 0.27% as at December 2020.

3.8 People and culture

3.8.1 Values

Pepper Money is proud of its mission ***to help people succeed***. Pepper Money fosters a team culture, with "Can do", "Balanced" and "Real" as its corporate values to provide employees the opportunity to develop and operate in an agile, collaborative and innovative environment. The three core values are illustrated below in Figure 101.

Figure 101: Pepper Money Values

Can do	*We are ambitious and entrepreneurial, so we look for opportunities. We think outside of the box when it comes to developing solutions for our customers and our teams. We leverage the power of teamwork to deliver. Our ability to be decisive drives our effectiveness.*
Balanced	*We come with considerable experience; we know how to handle the relationship between opportunity and risk. We understand how to create situations that can set people up for success – and that even in adversity producing a win-win is both human and profitable.*
Real	*We respect people and are totally honest with them. If we can help we will. If we can't, we'll say so. People want you to be straight with them and they like to understand how things are going – so we tell them. Trust is built by acting with integrity, by doing what you said you'd do. And understanding what people need.*

3.8.2 Employees and geographic footprint

Pepper Money had a team of 742 people as at 31 December 2020 and is headquartered in North Sydney with offices also in Parramatta (New South Wales), Auckland (New Zealand) and Manila (Philippines).

As part of Pepper Money's strategy to increase business efficiency with scale, it established a shared service facility in Manila in the Philippines in 2014, which is structured to be able to "scale up" and "scale down" resources to meet business demand.

As illustrated in Figure 102, Pepper Money has continued to build additional capabilities and capacity in the business through improved operational efficiency, with total FTE increasing 3% in CY2019 and falling by 6 FTEs in CY2020 versus CY2019.

Figure 102: FTE by location

Note: FTE refers to all employees currently paid via payroll and subject to PAYG including permanent full-time/part-time employees, fixed-term contractors, casuals, and parental leavers (based on their status immediately before taking leave) as at 31 December.

3.8.3 Diversity and inclusion

Pepper Money is committed to operating with an inclusive and open work environment where everyone is treated fairly, is given respect and has the opportunity to achieve success. Pepper Money believes that diversity and inclusion are key to not just the business' success but the success of all employees. Pepper Money's Diversity and Inclusion Committee has established this charter and is committed to continuously improving and championing diversity and inclusion at Pepper Money. The Committee includes representation from Executive Team members and employees from across the business.

Pepper Money has a variety of employment policies to support its inclusive culture, including workplace flexibility, leadership development courses, women in technology initiatives, parental leave policy, support for working parents and a domestic violence policy.

As at 30 April 2020, as reported in the Workplace Gender Equality Agency ("**WGEA**") report, women represented 44% of Pepper Money's manager positions. The 2020 employee engagement score for Australia and New Zealand was 77 and the Philippines was 79.

3.8.4 Key functions

Pepper Money's key functions can be categorised as:

- **customer facing functions**: (**Direct FTE**) representing employees that are involved with originating and servicing of lending activities, including sales, underwriting and settlements, servicing and collections; and
- **customer and business enablement functions**: (**Indirect FTE**) representing employees who do not directly originate or service Pepper Money's lending activities, but make Pepper Money's lending activities possible, including technology, marketing, treasury, finance, human resources, risk and other (including legal, business management, administration, etc.).

From CY2018 to CY2020, Pepper Money's headcount in Direct FTE has remained flat, reflecting the scale and efficiencies within the business as technology is deployed to deliver on customer and Distribution Partner experience. Total operating income – net of losses and NPAT (Pro Forma) increased by 35% and 82% over the same period. From CY2018 to CY2020 Pepper Money invested in Indirect FTE to further build a stand-alone business platform, including expanding the existing Technology and Enabling functions (including treasury, finance and risk).

3.9 Impact of COVID-19

The outbreak of COVID-19 and the resulting lockdown periods, travel and trade restrictions imposed in Australia and internationally, and reduced levels of economic activity, had a meaningful effect on the normal conduct of Pepper Money's operations in 2020. As a consequence of COVID-19, Pepper Money took a series of actions to address the needs of customers and the increased uncertainty in credit/economic and liquidity conditions, including:

- focusing resources in customer service and hardship management to meet the sudden and significant increase in customer requests for hardship assistance;
- managing origination volumes to lower levels through adjustments to credit policy and product pricing;
- updating forward-looking models when measuring Expected Credit Losses ("**ECL**") to assess any significant increase in credit risk, and for the impairment of financial and non-financial asset classes and disclosures/adjusting provision levels to reflect the greater credit risk assessed from the initial effects of the pandemic in terms of unemployment levels, personal and business confidence data and GDP declines; and
- managing funding relationships and monitoring capital markets conditions to identify opportunities to secure term funding at acceptable levels.

These measures are discussed in further detail in the remainder of this Section 3.9.

The COVID-19 outbreak has impacted ECL in the Pepper Money lending businesses. In line with other lenders, hardship payment moratoriums and repayment flexibility have been granted to customers undergoing financial stress due to COVID-19. Since the beginning of the pandemic the number of borrowers on such arrangements has reduced such that less than 1% of AUM continue to be on payment arrangements.

Pepper Money considers that the steps it has taken have been effective to address the challenging conditions arising from COVID-19, that the business has proven both its resilience and agility over this testing period and that it has emerged from the immediate COVID-19 period in a strong operating position.

3.9.1 Originations

As COVID-19 started to impact Australia and New Zealand in late Q1 CY2020, Pepper Money took steps to significantly reduce the volume of originations to address greater uncertainty from both a borrower credit and business liquidity perspective. As a result, the volume of originations across Mortgages and Asset Finance reduced from April 2020.

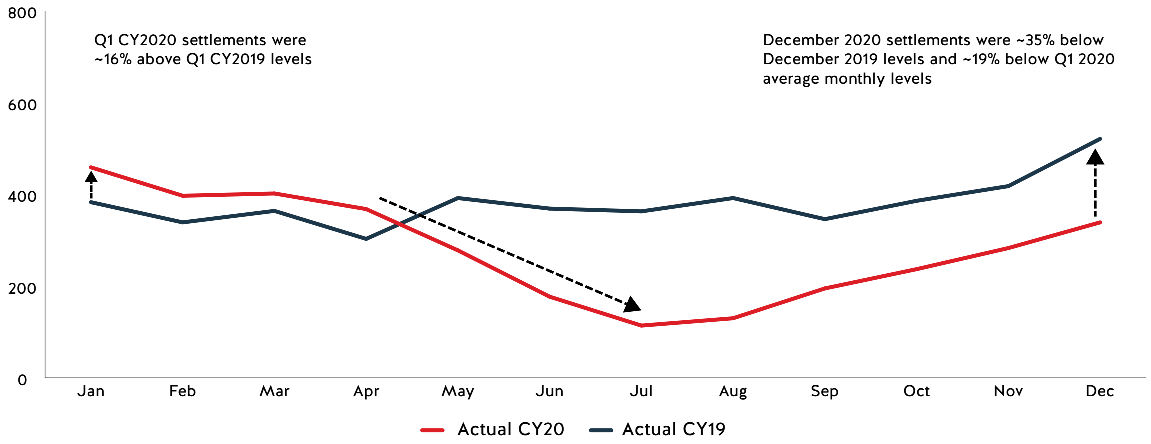
Uncertainty as to borrower credit circumstances was addressed via a series of changes in credit policies for Mortgages and Asset Finance, such as excluding income from directly affected industries (for example, tourism, hospitality, entertainment), reducing recognition of variable income, revoking or tightening delegation authority for exceptions and reducing loan amounts approved.

As Pepper Money became increasingly positive around the outlook, from both a credit and liquidity perspective, the significantly reduced risk appetite was gradually relaxed over 2H CY2020. Despite this, as at the date of this Prospectus, the overall credit appetite remains tighter than was the case pre-COVID-19.

Due to the nature of the product, Mortgages take a longer period between application and settlement than Asset Finance. As a result, changes in credit appetite show a "smoother" impact for Mortgages than Asset Finance. Origination volumes reduce more gradually and take longer to scale back up.

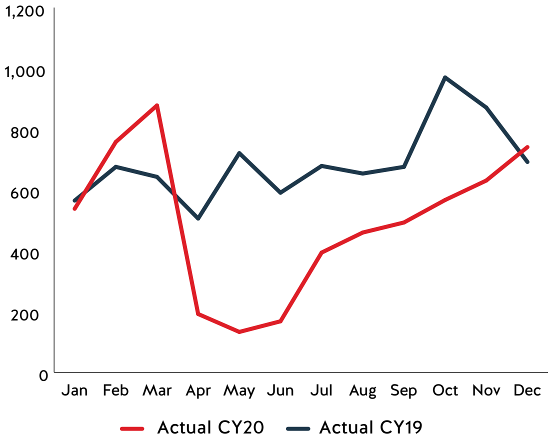
The trough in Mortgage applications in May 2020 (Figure 104) flowed through to a trough in Mortgage originations in July 2020 (Figure 103). On the contrary, in Asset Finance, the trough of applications in April 2020 (Figure 107) flowed through immediately to the trough of originations in the same month (Figure 106).

Figure 103: Monthly Mortgage settlements ($ million)



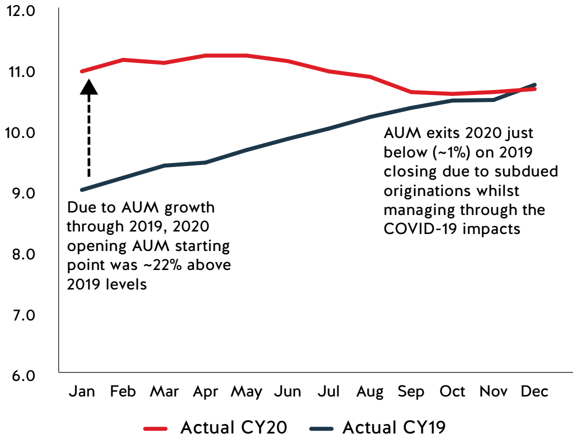
Note: Including New Zealand and CRE, CY2019 excludes Personal Loans. Pre-COVID levels calculated on average of January 2020 and March 2020.

Figure 104: Monthly Mortgage applications ($ million)



Note: Defined as applications received in the month.

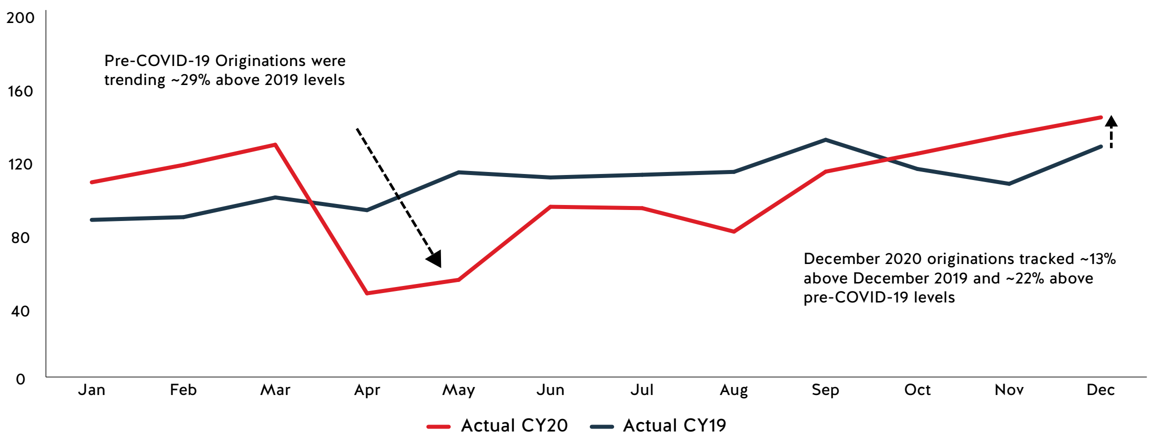
Figure 105: Mortgages AUM ($ billion)



As shown in Figure 106, Asset Finance origination activity has now surpassed pre-COVID-19, with Q4 2020 originations being the highest in Pepper Money history. There have been a number of factors contributing to this increase in activity, including:

- Demand for equipment finance has recently been supported by government stimulus packages for commercial customers in the form of instant asset write-off (refer to Section 2.5);
- Demand for used cars (which is a key market segment for Pepper Money's Asset Finance business) has been strong;
- Pepper Money has commenced the progressive rollout of a new origination system; and
- launch of a new novated lease product.

Figure 106: Monthly Asset Finance settlements ($ million)



Note: Pre-COVID levels calculated on average of January 2020 and March 2020.

Figure 107: Monthly Asset Finance applications ($ million)

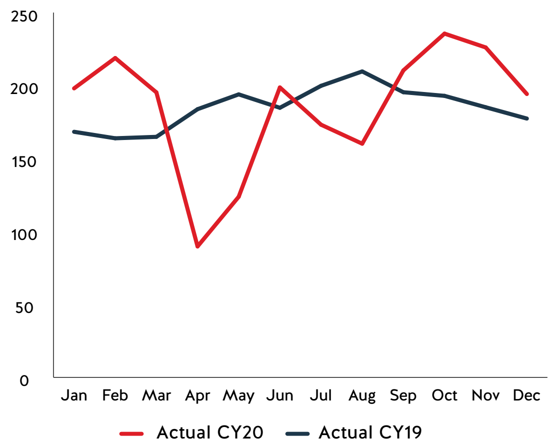
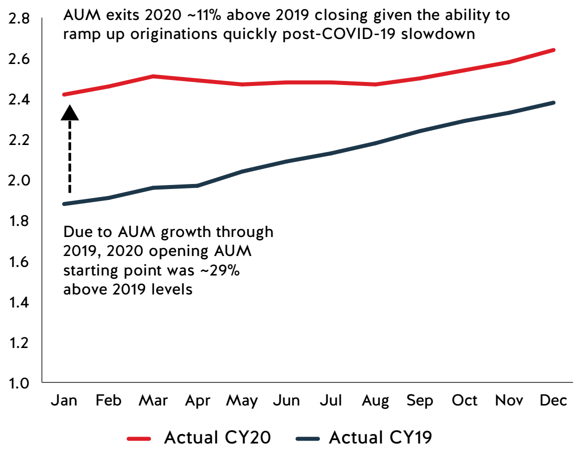


Figure 108: Asset Finance AUM ($ billion)



Note: Defined as applications received in the month.

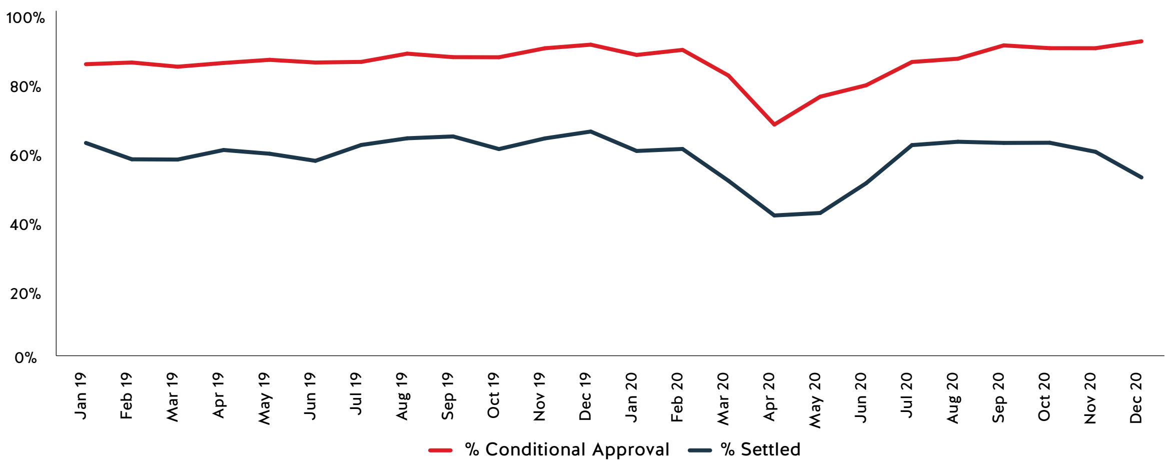
3.9.1.1 Approach to communication of credit appetite

The Pepper Money believes that transparency and predictability of approval outcomes is critical to building and maintaining trust and certainty between a lender and Distribution Partner.

As part of Pepper Money's response to COVID-19 in slowing origination volumes through increasing product pricing and tightening credit appetite, the business sought to do this in a transparent manner with its Distribution Partners, including by providing transparent communications detailing the changes which included a new Pepper Product Guide. The changes were also implemented into the Pepper Product Selector™ and Pepper Resolve™. Pepper Money believes that an open dialogue assists in maintaining a strong and enduring relationship with Distribution Partners.

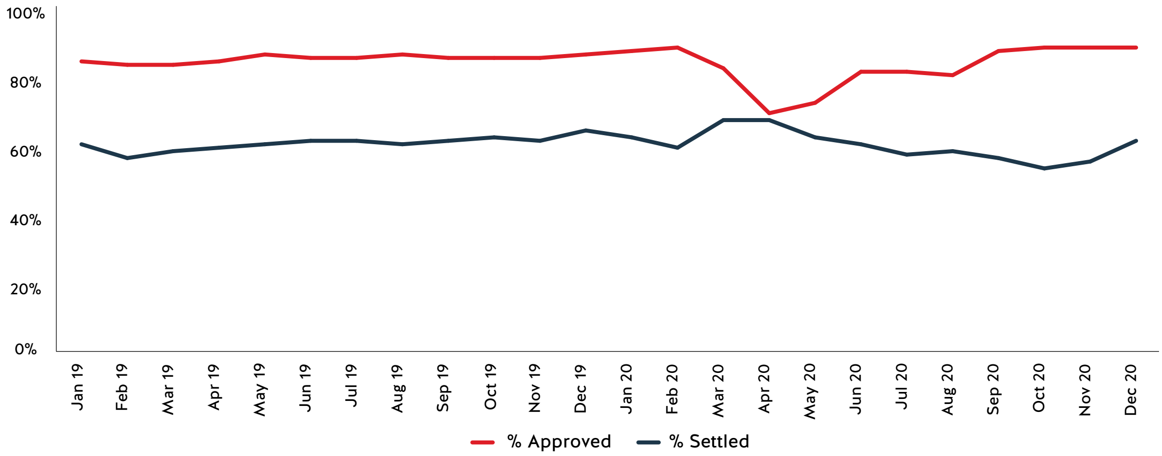
Figure 109 and Figure 110 demonstrates Pepper Money's approval rate for applications submitted by brokers over 2019 and 2020. The decline in approval rates for March and April, in part, reflects the assessment of applications submitted prior to the more significant escalation of COVID-19 concerns in March 2020 and the tightened criteria, but after a short period approval rates reverted towards pre-COVID-19 levels, indicating that Pepper Money's reduced credit appetite had been communicated to the market.

Figure 109: Pepper Money Mortgage approval rates with brokers over time



Note: Reflects Mortgage applications electronically submitted in the stated month and reached the end outcome of settled, withdrawn or declined. Given the timeline of the Mortgage product, this outcome is often not reached in the same month as application. This represents a snapshot as at 16 March 2021 and due to the lag between application and end outcome, applications from June 2020 onwards have a portion of applications still in pipeline.

Figure 110: Pepper Money Asset Finance approval rates with brokers over time



3.9.2 Operations

3.9.2.1 Call centre volumes

Customer contact (both inbound and outbound calls) increased significantly through the COVID-19 period. Voice calls to the Assist and Collections Team, and to the Customer Service Team, increased by 300% and 40% respectively at the peak level in the beginning of April 2020. By early May 2020 the call level had substantially normalised.

The increase in call volumes occurred in a period which included two major transitions of Pepper Money's workforce to remote working environments, both of which occurred within the space of a week. Pepper Money believes the operational capacity of the business was appropriately demonstrated in this period. Pepper Money's resilience and agility was recognised through a strategic NPS[75] of +8 for Mortgages and +38 in Asset Finance, together with employee engagement improvement[76] of +9 and an increase in broker NPS scores, displays the support for the resilience and preparedness of the business.

The first of the two major workforce transitions occurred when Pepper Money's Philippines operations were impacted by a lockdown across Manila on 17 March 2020. When this occurred Pepper Money shifted the workload back to Australia within 24 hours. The second transition occurred when Pepper Money's offices in New South Wales, Australia went into lockdown on 18 March 2020, after which 100% of Pepper Money was fully operational when NSW was placed into lockdown at the end of March 2020. Manila returned to 68% FTE after six weeks, and 98% by June 2020.

Prior investments made into the business enabled these transitions to be done quickly and then to be adjusted as the situation changed over time, such as with a temporary deployment of human interactive voice response technology to manage the call volumes.

3.9.2.2 Workforce optimisation and support

With a deliberately slower origination profile in the immediate COVID-19 period (refer to Section 3.9.1), Pepper Money temporarily redirected a number of Australian-based staff to operations. This assisted in alleviating increased volume due to workload transition from Manila and closer monitoring and dialogue with customers. By retaining origination resource capability, this allowed the business to respond quickly as market conditions improved and also to support valued employees through an uncertain period. Despite the disruption caused by COVID-19, employees were more engaged, with the engagement score improving by +9 to 77 over 2020[77].

75. Strategic NPS study conducted by Independent firm RFI Group – Pepper Money NPST Measurement and Benchmarking 2020. Survey conducted 1 September – 9 October 2020.t
76. Employee Engagement – Annual survey conducted by Custom Insights between 1 and 11th September 2020. Australian employees: 77 (+9 points vs 2019), at 95% participation rate. Manila employees 79 (+11 points vs 2019) at 99% participation rate.
77. As at 31 December 2020.

3.9.2.3 Accelerate digital transformation

Pepper Money has used COVID-19 as an opportunity to accelerate automation and the digital customer experience, with new platforms going live for originations, collections and telephone and customer service. These platforms have been established using Pepper Money's expertise in APIs, Artificial Intelligence and Robotics to enhance customer experience.

3.9.2.4 Customer support

A range of measures were adopted to support customers through COVID-19, including:

- the establishment of a suite of new tools and information for customers, including providing calculators to consider the impact that any assistance granted may have on their future loan repayments;
- providing details of what assistance was available not only from Pepper Money but also other organisations and Government agencies;
- monthly check-ins via email or phone;
- giving customers the ability to book an appointment with the Customer Assist and Collections Team to discuss their options; and
- via a number of other solutions dependent on the circumstances of the customers including:
  - use of redraw to cover payment instalments;
  - reduced payments for up to three months (per approval);
  - term extensions for Asset Finance customers where appropriate; and
  - capitalisation and re-amortisation of arrears whilst under assistance.

In response to COVID-19, at its peak (22 May 2020), over 12,000[78] of Pepper Money's customers were provided assistance, including loan deferrals, representing (at the peak) 15.80% of Mortgage customers (by balance) and 8.20% of Asset Finance customers (by balance). As at the end of 2020 these levels had reduced to 0.70% of Mortgage customers (by balance) and 0.10% of Asset Finance customers (by balance).

3.9.2.5 Loan deferrals

In the immediate period following the escalation of COVID-19 concerns, Pepper Money adopted a proactive approach of contacting customers and engaging in loan deferral conversations. Whilst this approach may have resulted in the proportion of loans under COVID-19 hardship arrangements being higher for Pepper Money than some industry observations at the onset, the depth of customer insights gained from Pepper Money's focused and personal approach to customer engagement has enabled hardship levels across Pepper Money's customer base to reduce more quickly than the broader industry, as illustrated in Table 13, Table 14, Figure 111 and Figure 112.

Table 13: S&P COVID-19 arrangements summary (including non-capital market issues)[79]

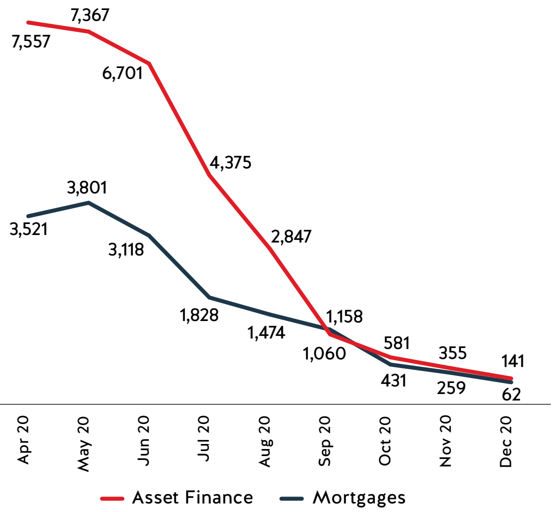
2020	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Major Bank	7.4%	8.4%	8.0%	7.3%	6.9%	5.2%	3.2%	2.1%
Regional Bank	8.3%	9.3%	10.9%	10.7%	9.6%	7.2%	4.1%	2.9%
Other Bank	6.7%	6.8%	7.2%	6.3%	5.8%	5.5%	3.7%	2.8%
NBFIs	3.8%	4.2%	4.2%	3.8%	3.8%	3.4%	3.1%	2.8%
Non-ADI-Prime	6.5%	5.6%	6.0%	5.5%	5.0%	3.7%	4.1%	3.9%
Non-ADI-Non-Conforming	18.3%	20.6%	18.0%	10.5%	9.6%	6.9%	5.0%	5.0%

78. Based on highest daily balances. Note one loan may have more than one customer.
79. As a percentage of total loan balances for each securitised trust. The Australian Securitisation Market: Review and Outlook 2021 – National Australia Bank (NAB). Categories as described in the report.

Table 14: Pepper Money COVID-19 arrangements summary[80]

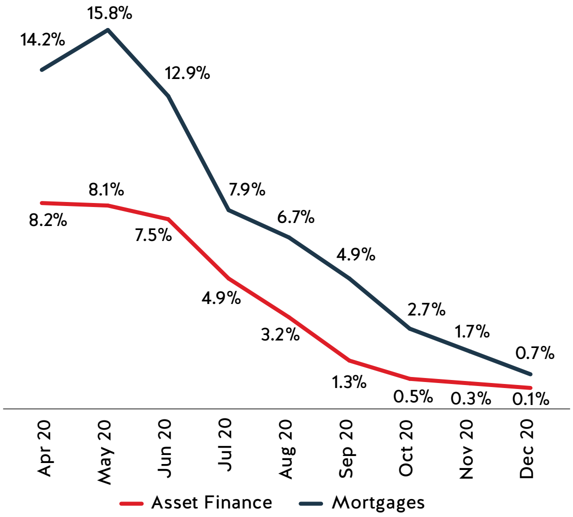
2020	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Pepper	14.2%	15.8%	12.9%	7.9%	6.7%	4.9%	2.7%	1.7%
Pepper Prime	10.0%	11.1%	9.9%	5.7%	4.4%	3.3%	1.7%	1.0%
Pepper Non-Conforming	18.4%	20.2%	16.4%	10.0%	8.9%	6.5%	3.6%	2.3%

Figure 111: COVID-19 loans by number



Source: Company data as at month end. Data as of 31 December 2020.

Figure 112: COVID-19 loans by % of AUM



Source: Company data as at month end. Data as of 31 December 2020.

3.9.3 Expected Credit Loss

Refer to Section 4.2.7 for provisions and expected credit losses as a result of COVID-19.

3.9.4 Funding

Drawing from Pepper Money's experience, particularly through the GFC, Pepper Money engaged with funding partners early to confirm ongoing support and understand potential areas of focus. As part of its strategy to retain headroom in existing facilities, originations were significantly slowed at the beginning of COVID-19 (refer to Section 3.9.1), until comfort of ongoing support was obtained.

Investors have demonstrated continued support and positivity of Pepper Money, with all Warehouse Facilities due for maturity having been renewed; six new Term Securitisation issuances, three placement of refinancing notes, and two whole loan sales completed in 2020.

In 2020, Pepper Money raised $5.7 billion in funding across its Prime, Non-Conforming and Asset Finance programmes, via Term Securitisations ($4.8 billion), re-issues ($0.5 billion) and whole loan sales ($0.4 billion). Of this, $4.2 billion Term Securitisations were completed from May 2020 onwards (after the onset of COVID-19).

80. Company data.

3.9.5 Pepper Money's use of Government Initiatives and Support Measures

During the financial year ended 31 December 2020, Pepper Money utilised the following Federal/State tax concessions:

- Delayed PAYG Company Tax Instalments; and
- Victorian and Queensland Payroll Tax relief.

As outlined in Section 2.5, the Government has set up a TFF to support non-bank financial institutions. During 2020, the AOFM provided support to Pepper Money in the form of[81]:

- Purchase of $244 million of Pepper Money securities in the secondary market;
- Participation as a mezzanine investor in a Warehouse Facility with a commitment of $39 million; and
- As discussed below, approval for Pepper Money to participate in the forbearance special purpose vehicle ("**fSPV**").

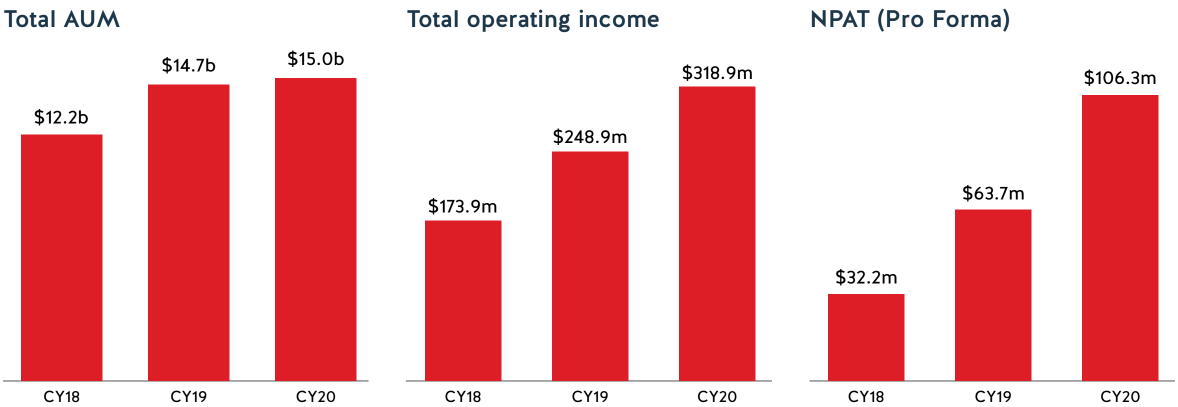
The fSPV, a subset of SFSF, is a single SPV funded by the Commonwealth (through the A$15 billion Structured Finance Support Fund as part of the Federal Government's response to the impact of COVID-19 on the ability of borrowers to continue to make their monthly loan payments) and industry participants including Pepper Money. The fSPV allows participant originators (including Pepper Money) to access temporary liquidity support for COVID-19 hardship-related missed interest payments on loan assets, while requiring Funding Vehicles to reimburse this liquidity support from future residual income. In 2020, Pepper Money accessed the fSPV through eligible drawings made by the majority of Funding Vehicles for which Pepper Money is the sole residual income unitholder. The aggregate of such drawings was $28.8 million and this amount, together with interest accrued, is required to be repaid by the Funding Vehicles over a five-year period (in the case of mortgage loans) or a three-year period (for asset finance receivables) commencing in April 2021.

3.10 Growth

3.10.1 Growth track record

Through its mission to ***help people succeed***, Pepper Money has delivered a track record of profitable growth, as evidenced by strong levels of AUM (closing), total operating income – net of losses and NPAT (Pro Forma) CAGR of 10, 35% and 82%, respectively, from CY2018 to CY2020.

Figure 113: Pepper Money's growth in AUM, Total operating income and NPAT (Pro Forma)



Total AUM (closing) includes Mortgages, Asset Finance, CRE, and Servicing.

Net of losses.

Note: Refer to Section 4 for further details on the preparation of financial information.

81. AOFM Securitisation Investments. https://www.aofm.gov.au/securitisation-investments.

3.10.2 Key pillars of Pepper Money's growth strategy

Pepper Money's growth strategy and medium-term growth outlook is structured on building sustainable AUM at an acceptable risk-adjusted return. The strategy is supported by the following key pillars, as listed in Table 15 below.

Table 15: Growth strategy pillars

Ability to identify underserved segments in a large addressable market	• **Ability to identify underserved segments**: Pepper Money has a large total addressable market of $2,160 billion and $52 billion of credit outstanding in Mortgages and Asset Finance target markets respectively[82]. Within these large total addressable markets, Pepper Money has established a history of focusing on underserved market segments where Pepper Money can use its expertise to deliver value for customers and generate an appropriate risk-adjusted return for its business. Pepper Money continues to see significant opportunity to use data-driven insights to identify and enter new markets and further assist underserved customers. • Refer to Section 1.1 and 3.2.1.2 for further details.
Agility to respond to market conditions	• **Flexibility in platform**: strength of systems, technology and the platform allow Pepper Money to respond quickly to changes in market conditions. • **Data-driven insights**: allows Pepper Money to identify new trends and opportunities and respond in a timely manner. • **Disciplined approach**: to growth and pricing, leveraging 20+ years of experience and pricing for risk.
Scalable platform	• **Strengths across the value chain**: developed a comprehensive business model designed to scale, with key strengths across customer acquisition and distribution, underwriting capabilities, customer service, Distribution Partner support, centralised data and investment into data analytics, loan servicing and processing, and credit management (refer to Section 3.2.1 for further details). • **Purpose built technology platform**: providing flexibility to efficiently respond to increased (and decreased) demand to drive performance across the business. • **Improved efficiency with scale**: opportunity to leverage components of Pepper Money's fixed cost base to deliver new products and enter new markets. • Refer to Section 3.10.2.1 for further details.
Investment in digital tools to drive distribution	• **Supports Distribution Partners and BDMs**: Development of distribution tools (including Pepper Product Selector™ and Pepper Resolve™ for Mortgages, and API integration and automated approvals for Asset Finance), which help to remove the time required and other friction points during the application process and help Distribution Partners deliver a Pepper Money solution to more of their customers. • **Increasing awareness of Pepper Money products**: Digital tools have been designed for ease of use and quick response times. The design of the distribution tools raises the awareness of Pepper Money products with Accredited Distribution Partners that have previously not sold Pepper Money products.

82. As at 31 December 2020. Estimated market share based on AUM. Mortgages excludes CRE. Asset Finance industry market size includes consumer motor and equipment financing only; commercial data not publicly available.

Investment in digital tools to drive distribution *continued*	• Examples of recent product developments with strong traction: – **Pepper Product Selector™**: generating approximately $358 million of leads per month during CY2020[83]; – **Pepper Resolve™**: promotes increased awareness of alternative solutions without the need to be familiar with Pepper Money's credit or product policies; – **API integration**: integrated with 13 different Asset Finance aggregator groups, reducing friction to submit an application; – **electronic signatures**: testing electronic signature capabilities and access to online bank statements in Asset Finance to reduce processing times; and – **automated approvals**: increased the level of automated approvals in Asset Finance, with 25% of Consumer Asset Finance approvals automated in 2020, with scope to increase further. • Refer to Sections 3.5.2 and 3.5.3 for further details.
Extension into new markets	• Successful entry into New Zealand residential home loans and Australian CRE loans in 2019. • Refer to Section 3.10.2.3 for further details.
Adapting to industry trends	• **Opportunity to educate the market on product alternatives**: the Non-Conforming market remains significantly under-penetrated, with a significant portion of eligible Non-Conforming customers not obtaining a loan given lack of awareness of alternative solutions. • **Increased openness to Non-Bank Lenders**: customers are increasingly open to alternative sources of finance and exploring new channels to acquire financial products. • **Shift to casual workforce**: emergence of "gig economy" which requires flexibility and understanding of circumstance during underwriting process. • **Introduction of CCR**: customers will begin to understand their credit scores and become more aware of what products are available to them.

3.10.2.1 Scalable platform and operating leverage

Pepper Money operates using a purpose-built technology platform to provide flexibility and drive performance across its business. Pepper Money has invested in technology to, among other things, improve operational efficiency as the business continues to scale. The investment includes the following initiatives:

- **customer portal**: modern way for customers to access account information and provides Pepper Money with a low-cost customer engagement tool with over 42,000 customers logging in to use the customer portal[84];
- **API framework**: integrates Distribution Partner CRM software with Pepper Money systems, reducing time to decision and improving partner and customer experience;
- **auto approvals**: increased use of automated approvals for Consumer Asset Finance;
- **digital distribution tools**: generated $14.9 billion of customer leads[85] since April 2017;
- **offshore capability**: build-out of offshore operations in Manila, which adds additional workplace and operates with a lower FTE cost than that for similar functions; and
- **process mapping**: interactive (cloud-based) process mapping to allow for improved compliance and governance procedures, as well as the identification and acceleration of automation opportunities.

Pepper Money leverages the existing platform as a foundation to add additional revenue streams such as new asset classes, markets or products at minimal additional cost.

83. Monthly average for CY2020.
84. As at 31 December 2020.
85. To 31 December 2020.

Figure 114: Cost to income ratio[86]

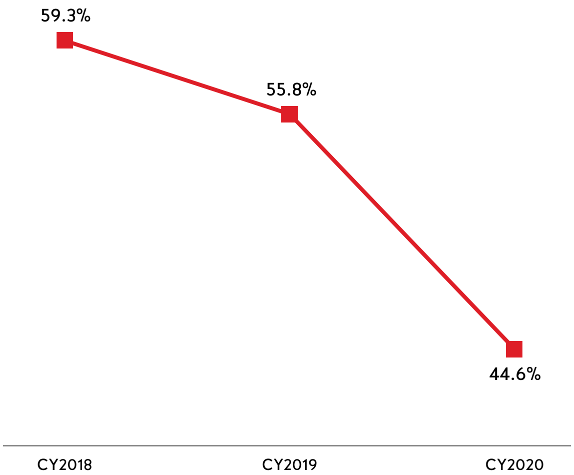
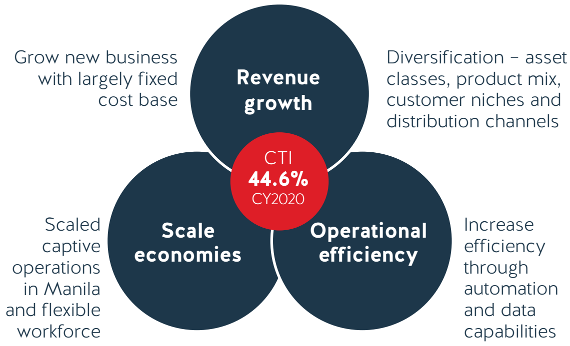


Figure 115: Illustration of operating efficiency of the business model[86]



3.10.2.2 Increased awareness of the product by Distribution Partners and customers

As demonstrated in Section 2.2.1.5, the Non-Conforming market remains significantly underserved, with a significant portion of eligible Non-Conforming customers not being aware of solutions available to them beyond those offered by mainstream lenders such as ADIs. Pepper Money continues to work directly with Distribution Partners and mortgage broking industry bodies to educate the market on product alternatives to grow the addressable market. For example:

- Pepper Money has designed the "five-step process" to guide Distribution Partners on how to explain a Non-Conforming home loan to a customer who does not meet the criteria for a Prime home loan; and
- Pepper Money creates tailored BDM materials to educate individual Distribution Partners on the Non-Conforming customers in their respective geographic areas.

Furthermore, Pepper Money believes that industry tailwinds of customers' increased openness to Non-Bank Lenders, shifts to a casual workforce and the introduction of CCR, as described above, will result in increased customer awareness and demand for Pepper Money's lending products.

3.10.2.3 Extension of existing platforms and capabilities

Pepper Money believes that a number of different market segments across Australia and New Zealand remain underserved by traditional financial institutions. Pepper Money continues to explore and consider designing products in these segments to address the market need.

When considering entry into a new or adjacent market segment, or entry in similar products into New Zealand, Pepper Money has the ability to:

- leverage the credit learnings gained from its Loan and Other Servicing division;
- leverage existing operational capabilities, including existing credit and underwriting expertise, funding capabilities and distribution relationships (as appropriate); and
- trial new products in a conservative and cost and capital effective manner.

As outlined in Section 3.4.1, Pepper Money has successfully entered into the New Zealand and Australian residential and CRE loan markets in 2019, by leveraging existing platform and capabilities, and building on its existing servicing capabilities in these markets, developed from the acquisition of GE Capital's Home Lending business in Australia and New Zealand in 2011, and the CRE loan book of an International Bank in 2013.

86. CY2020 is Pro Forma.

Pepper Money has seen strong initial success in these sectors to date, as described in Table 16 and Table 17 below.

Table 16: New Zealand residential home loans market opportunity

Market	New Zealand residential home loans
Entry	• June 2019[87]
Market size	• $279 billion[88]
Pepper Money AUM	• $109 million (as at 31 December 2020)
Market opportunity	• Underserved Near Prime and Specialist customer segments within the New Zealand market landscape. • Increasing capital requirements for the Major Australian Banks operating in New Zealand (which have approximately 86% market share) may change competitive dynamics. • Supportive macroeconomic overlay (as described in Section 2.2.2).
Positioning	• **Trust**: high level of focus on the customer experience for Distribution Partners and customers. • **Breadth of lending solutions**: competitive pricing to match the customers' circumstances, with an aim to serve those who fall outside the criteria of the New Zealand subsidiaries of the Major Australian Banks. • **Ease of process**: deliver a market leading digital capability, including the first end-to-end mortgage platform in New Zealand and Pepper Product Selector™ to assist Distribution Partners to efficiently write Pepper Money customer solutions.
Strategy	• Leverage Australian operations across underwriting, collections and servicing to allow low-cost entry into the New Zealand market, including the adoption of the Cascading Credit Model. – credit and servicing models benefit from learnings and experience from GE portfolio that Pepper Money acquired in 2011. • Offer customers the full product suite – Prime, Near Prime and Specialist. • Distribution initially through White Label arrangements, which will allow Pepper Money to capture some of the Distribution Partners' brand loyalty. Over the medium term, Pepper Money will offer branded products through established Mortgage Advisers.

87. National roll-out: September 2019.
88. Housing, RBNZ C5 Sector lending (registered banks and non-bank lending institutions), December 2020 (published February 2021).

Table 17: Commercial Real Estate loans market opportunity

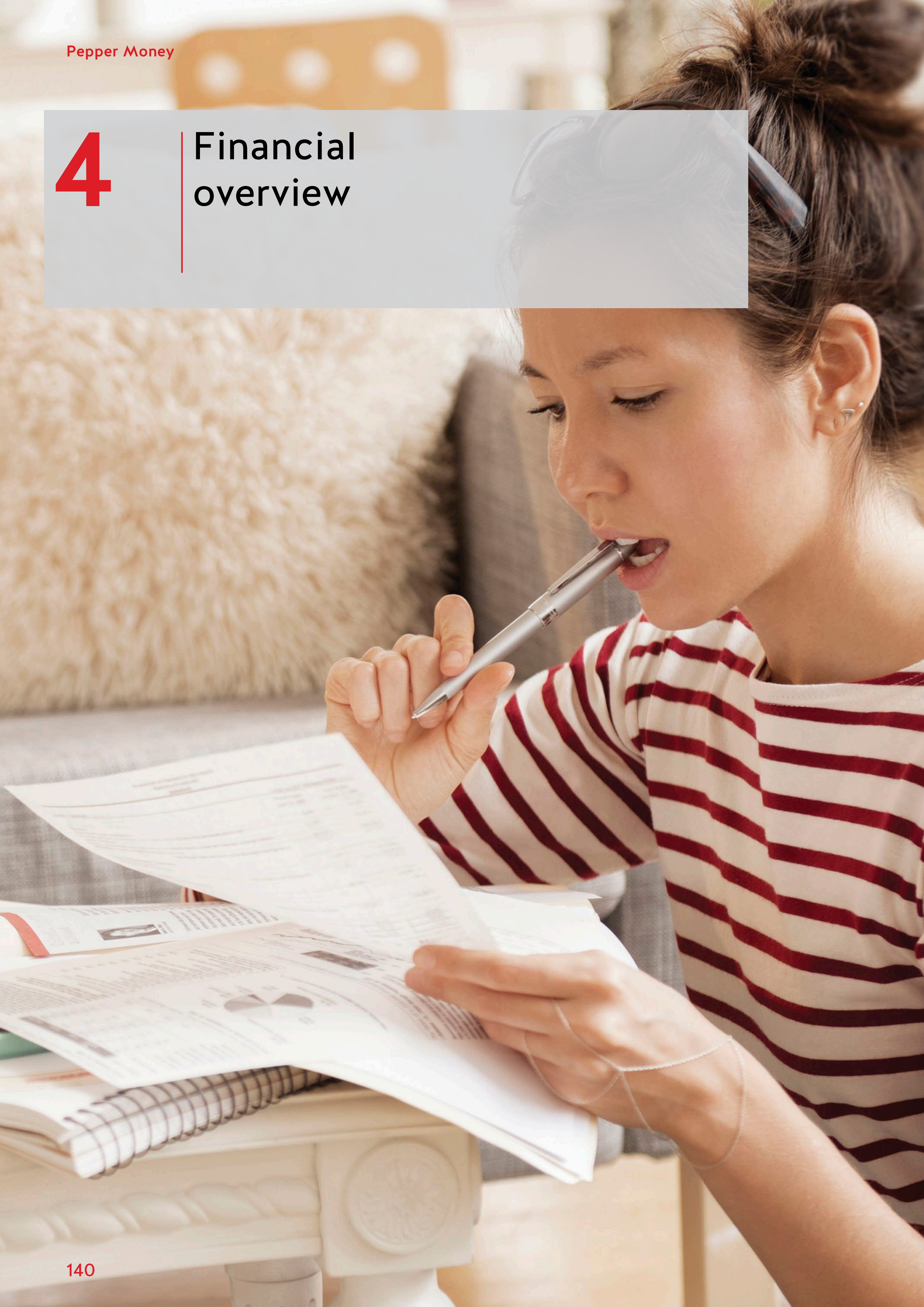
Market	Commercial Real Estate loans
Entry	• May 2019
Market size	• n/a[89]
Pepper Money AUM	• $100 million (as at 31 December 2020)
Market opportunity	• Underserved segment within the Australian landscape. • Established in response to feedback from the Distribution Partners/demand. • Underlying, supportive industry environment.
Positioning	• Continued diversification of the lending options that Pepper Money provides its self-employed customers.
Strategy	• Targets small balance commercial real estate (<$3.5 million). • Leverages Pepper Money's existing distribution footprint. • Strong credit expertise in borrower type and CRE asset class. • Only lender to offer a commercial mortgages White Label program.

3.10.2.4 M&A and strategic partnerships

Although organic growth avenues remain the key focus of the business, Pepper Money also considers options to pursue growth through strategic partnerships or acquisitions where they present an opportunity to leverage Pepper Money's platform or capabilities, improve operational efficiency or enter select new markets. Pepper Money is currently participating in a confidential process which, if successful, will likely result in Pepper Money entering into a strategic partnership where it's role would include loan servicing and other operational functions. There is no certainty that the transaction or partnership will occur. If a transaction eventuates it is not expected to require Pepper Money to raise any equity or require significant utilisation of available undrawn capacity under the Corporate Debt Facility.

89. Note: Industry estimate for the segment of Commercial Real Estate market where Pepper Money offers products is not available.

4 Financial overview



4.1 Introduction

Financial information for Pepper Money contained in this Section 4 is set out below for the historical financial years ended 31 December 2018 (**CY2018**), 31 December 2019 (**CY2019**) and 31 December 2020 (**CY2020**) and for the forecast year ending 31 December 2021 (**CY2021F**).

The historical consolidated financial statements of Pepper Money include the financial results of the Australian and New Zealand businesses as well as the financial results of other international businesses (**Rest of World**). In order to undertake the Offer, Pepper Money has implemented a number of restructure steps to transfer the assets and liabilities of the Rest of World into separate holding companies outside the Pepper Money group. Following these restructure steps, Pepper Money will continue to operate the Australian and New Zealand businesses and therefore, to reflect the financial results on a consistent basis and to align with Pepper Money's ongoing operations, the historical financial information had been presented as if Pepper Money has always consolidated the financial information of the Australian and New Zealand businesses only.

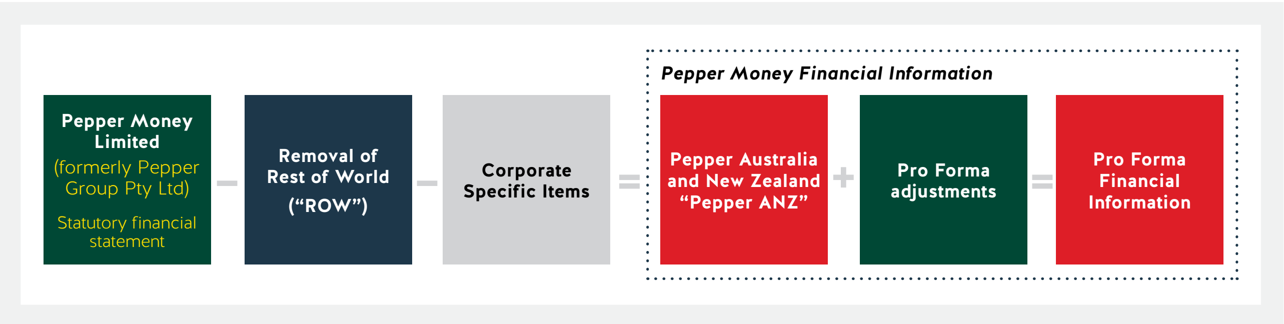
In order to support the presentation of the historical financial information, separate audited financial statements have been prepared, on a carve out basis, from the Pepper Money statutory financial statements to reflect the financial results of the Australian and New Zealand businesses (**Pepper ANZ**) for CY2018, CY2019 and CY2020. These audited financial statements form the basis of the financial information included in Section 4.

A reconciliation from the Pepper Money statutory financial statements to the Pepper ANZ financial statements is included in Appendix A.

Table 18: Summary of the Pepper Money Financial Information

	Pepper Money Financial Information	Pro Forma Financial Information
Historical Financial Information	• The historical income statements of Pepper ANZ for CY2018, CY2019 and CY2020; • The historical cash flow statements of Pepper ANZ for CY2018, CY2019 and CY2020; and • The statutory balance sheet of Pepper Money as at 31 December 2020 (together, the **Pepper Money Financial Information**).	• The Pro Forma historical income statements of Pepper ANZ for CY2018, CY2019 and CY2020; • The Pro Forma historical cash flow statements for CY2018, CY2019 and CY2020; and • The Pro Forma balance sheet of Pepper Money as at 31 December 2020 (together, the **Pepper Money Pro Forma Financial Information**).
Forecast Financial Information	• The Pepper ANZ forecast income statement for CY2021F; and • The Pepper ANZ forecast cash flow statement for CY2021F (together, the **Pepper Money Forecast Financial Information**).	• The Pepper ANZ forecast Pro Forma income statement for CY2021F; and • The Pepper ANZ forecast Pro Forma cash flow statement CY2021F (together, the **Pepper Money Pro Forma Forecast Financial Information**).

Figure 116: Illustrative overview of Pepper Money basis of presentation of Financial Information



The Historical Financial Information and the Forecast Financial Information together form the **Financial Information**.

The Financial Information has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Fundraising and/or Prospective Financial Information*, by Deloitte Corporate Finance Pty Limited whose Investigating Accountant's Report on the Financial Information is contained in Section 8.

A summary of the Financial Information contained in Section 4 and Appendix A is presented below.

Item	Section
Basis of preparation and presentation of the Financial Information	**4.2**
Pro Forma historical and forecast income statements	**4.3**
Segment information	**4.4**
Pepper Money Pro Forma balance sheet	**4.5**
Indebtedness capital and liquidity	**4.5.3**
Pro Forma historical and forecast cash flow statements	**4.6**
Management Discussion and Analysis of the Pro Forma Financial Information	**4.7**
Forecast Financial Information	**4.8**
Sensitivity analysis	**4.9**
Dividend policy	**4.10**
Reconciliation of Statutory Financial Information and Pepper Money Financial Information	**Appendix A**

The information in this Section 4 should be read in conjunction with the Key Risks set out in Section 5 and other information contained in this Prospectus. Investors should note that past results are not a guarantee of future performance.

All amounts disclosed in the tables are presented in Australian dollars ("**A$**" or "**$**") and, unless otherwise noted, are rounded to the nearest A$0.1m. Percentage movements have been calculated from underlying source information and hence may not reconcile to rounded calculations. Amounts translated from foreign currencies have been converted at the average exchange rates over the relevant period (for the income statement and cash flow statement) and spot exchange rates (for balance sheet items).

4.2 Basis of preparation and presentation of the Financial Information

4.2.1 Overview

The Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the underlying historical financial performance, cash flows and assets and liabilities of Pepper Money, together with the Forecast Financial Information for CY2021F.

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of the Australian Accounting Standards ("**AAS**") issued by the Australian Accounting Standards Board. AAS is consistent with the International Financial Reporting Standards ("**IFRS**") and interpretations issued by the International Accounting Standards Board and the accounting policies of Pepper Money as summarised in Section 4.2.

The Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements and comparative information required by AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

In preparing the Pepper Money Financial Information, the accounting policies and standards have been applied consistently throughout the periods presented with the exception of the impact of AASB 16 *Leases* discussed in Section 4.2.5. The Pepper Money Pro Forma Financial Information and the Pepper Money Pro Forma Forecast Financial Information includes the impact of this standard as if it had applied for each of the periods presented in this Prospectus.

The Directors believe that the Pepper Money Pro Forma Financial Information and the Pepper Money Pro Forma Forecast Financial Information reflect the historical and future performance of the business consistent with its ongoing operations following the Offer. However, the Pepper Money Pro Forma Financial Information and the Pepper Money Pro Forma Forecast Financial Information do not reflect the actual or prospective financial performance, financial position or cash flows of Pepper Money for the periods indicated.

As described in Section 4.4, Pepper Money has three reportable segments under AASB 8 *Operating Segments*, being Mortgages, Asset Finance, and Loan and Other Servicing.

4.2.2 Consolidation of Funding Vehicles

The Financial Information in this Prospectus has been prepared on a consolidated basis in accordance with AASB 101 *Presentation of Financial Statements* and AASB 10 *Consolidated Financial Statements*. Under the criteria specified within these standards, the assets and liabilities and income and expenses, pertaining to the limited recourse Funding Vehicles that are deemed to be controlled are required to be consolidated. Control may be obtained through the combination of the investment in each Funding Vehicle (exposure to variable interest) and role as servicer (power to influence those variable returns).

4.2.3 Preparation of the Historical Financial Information

The Historical Financial Information has been prepared for the purpose of this Prospectus and has been derived from the Pepper Money Financial Information to illustrate the net income, cash flows, assets and liabilities adjusted for certain transactions and pro forma adjustments. In particular, Pro Forma adjustments have been made to reflect the following:

- impact of the new accounting standard (AASB 16 *Leases*) as if this had been adopted as at 1 January 2018 and therefore applied throughout the historical periods presented (see Section 4.2.5);
- incremental costs associated with being a publicly traded company including Board and governance costs, incremental audit, tax, legal and compliance related costs and ASX listing fees;
- removal of one-off restructuring costs;
- inclusion of estimated transitional costs associated with Pepper Money's separation from Pepper Global including the establishment of a Trademark Licence Agreement and Transitional Services Agreement;
- incremental Employee Remuneration Plans aligned with the fixed, long term and short-term incentives for Management going forward;
- overlay of assumed corporate debt interest expenses in line with draw down levels on listing;
- removal of costs incurred in relation to the Offer; and
- tax impact of the above adjustments.

The statutory financial statements for Pepper Money for CY2018, CY2019 and CY2020 have been audited by Deloitte Touche Tohmatsu in accordance with Australian Auditing Standards. Deloitte Touche Tohmatsu issued unmodified audit opinions in respect of those financial statements.

The Pepper ANZ financial statements for CY2018, CY2019 and CY2020 have been audited by Deloitte Touche Tohmatsu in accordance with Australian Auditing Standards. Deloitte Touche Tohmatsu issued unmodified audit opinions in respect of those financial statements. These Pepper ANZ financial statements have been used in preparing the Pepper Money Financial Information.

A reconciliation from the Pepper Money statutory financial statements to the Pepper Money Financial Information is included in Appendix A.

The balance sheet of Pepper Money as at 31 December 2020 reflects the consolidation of all its controlled entities. To support the Restructure (as defined in Section 9.4), Rest of World assets and liabilities have been disclosed as Assets Held for Sale in accordance with AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*. In accordance with AASB 101 *Presentation of Financial Statements*, Pepper Money presents its balance sheet in the order of liquidity of its assets and liabilities. This presentation is consistent with industry practice as this information is considered more reliable and relevant for investors rather than separating current and non-current assets and liabilities.

The Pro Forma balance sheet of Pepper Money includes certain other pro forma adjustments to reflect:

- the impacts of the Restructure including the transfer of the international businesses outside Pepper Money and replacement of the Pre-IPO corporate debt facility with the Bridge Facility (as described in Section 9.5.3). The adjustment assumes that the Restructure and Bridge Facility draw down had occurred and were in place at 31 December 2020;
- the impact of the Offer including the offset of certain Offer costs against equity;
- part repayment of the Bridge Facility and conversion into the Corporate Debt Facility on completion of the Offer (as described in Section 9.5.3); and
- implementation of the Employee Remuneration Plans post-completion of the Offer.

The Pro Forma balance sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of Pepper Money's view on its future financial position.

4.2.4 Preparation of the Forecast Financial Information

The Forecast Financial Information has been prepared by the Directors with due care and attention and having regard to an assessment of present economic and operating conditions and based on a number of best estimate general and specific assumptions regarding future events and actions. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring and is not intended to be a representation that the assumptions will occur. The Forecast Financial Information has been reviewed by Deloitte Corporate Finance Pty Limited but has not been audited. Investors should note the scope and limitations of the Investigating Accountant's Report (refer to Section 8).

The Pepper Money Forecast Financial Information is subject to the Directors' Best Estimate Assumptions underlying the Forecast Financial Information (refer to Sections 4.8.1 and 4.8.2 for further details). The Directors believe the Directors' Best Estimate Assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a materially positive or negative effect on Pepper Money's actual financial performance or financial position. Accordingly, none of Pepper Money, the Directors, Management, or any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

Investors are advised to review the Forecast Financial Information in conjunction with the Directors' Best Estimate Assumptions (refer to Sections 4.8.1 and 4.8.2 for further details), the sensitivity analysis set out in Section 4.9, the Key Risks set out in Section 5 and other information set out in this Prospectus.

The Directors have no intention to update or revise the Forecast Financial Information or other forward-looking statements following the issue of this Prospectus, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

The Forecast Financial Information covers the full year to 31 December 2021. The Forecast Financial Information is presented on both a Pepper ANZ and a pro forma basis. The Pepper Money Forecast Financial Information has been prepared on a basis consistent with how Pepper Money's statutory financial statements are expected to be prepared for future financial periods, following completion of the Restructure.

4.2.5 Application of new Accounting Standards: AASB 16 *Leases*

In preparing the Pepper Money Financial Information, accounting policies and standards have been applied consistently throughout the periods presented with the exception of AASB 16 *Leases*.

The adoption of AASB 16 *Leases* was required for financial years commencing on or after 1 January 2019.

AASB 16 removes the accounting distinction between operating and financial leases and requires recognition of most lease liabilities on the balance sheet, together with a related right of use asset. As a result, the income statement shows lease expense as depreciation relating to the right of use asset and interest relating to the lease liability rather than rent expense being shown as an operating expense. As a result of the adoption of AASB 16, operating expenses are expected to decrease and depreciation and interest expense will increase, and the timing of expense recognition will change due to the change from a straight-line rental expense to depreciation and interest expenses with an accelerated profile.

This Prospectus presents the Pepper Money Pro Forma Financial Information and Pepper Money Pro Forma Forecast Financial Information on a consistent basis to reflect the impact of AASB 16 had the standard been applied from 1 January 2018. Refer to Section 4.3 for further detail on the quantification of this impact.

4.2.6 Seasonality

Pepper Money experiences a marginal seasonal effect in its financial performance between the first six months of the financial year from January to June ("**1H**") and the second six months to December ("**2H**") at the net interest income level. For example, demand for Mortgage lending and Asset Finance is typically higher during the 2H period in comparison to the 1H period as a result of seasonality in housing and vehicle purchases during the spring and summer months. This causes a marginal increase in volumes and receivables at the end of the 2H period relative to the 1H period.

The onset of COVID-19 from early Q2 CY2020 resulted in an impact on seasonality trends over CY2020. Originations were slowed across Q2 – Q3 CY2020 given Pepper Money's decision to limit growth through a period of significant uncertainty in the credit environment and given the increase in financial hardships being experienced in the early stages of COVID-19. Pepper Money considers CY2020 to be a one-off experience in relation to seasonality that was driven specifically by COVID-19 and investors should note that the seasonality of Pepper Money's business as mentioned above is considered to be the long term historical experience.

4.2.7 COVID-19 disclosure

Pepper Money's operating model combines credit risk based underwriting expertise with specialist loan servicing and collection management capabilities which together deliver enhanced performance in both its lending and servicing businesses across its multiple asset classes.

As a consequence of the COVID-19 outbreak and associated quarantine measures and travel restrictions, Management:

- updated forward-looking models when measuring Expected Credit Losses (**ECL**) to assess any significant increase in credit risk, and for the impairment of financial and non-financial asset classes;
- reviewed market performance in both Australia and New Zealand in previous economic downturns, including the financial crisis of 2008; and
- reviewed economic forecasts from a range of sources including external market data to identify other COVID-19 related impacts.

The impacts of COVID-19 have been considered and incorporated into the Pepper Money ECL model through additional management overlays. Factors considered in assessing the ECL include:

- hardship payment moratoriums and repayment flexibility granted to some customers;
- Pepper Money raised c$4bn of financing in the capital markets, through the issue of several securitisations (without any direct government support) throughout CY2020;
- a range of financial stimulus measures implemented by the Australian and New Zealand governments;
- Pepper Money's conservative approach to risk management through CY2020 resulting in a slowdown in originations in Q2 and Q3 CY2020, as well as reducing its cost base to remain liquid throughout CY2020;
- Pepper Money's utilisation of available Federal and State tax concessions; and

- the end of JobKeeper on 28 March 2021 has been taken into account, including a COVID-19 management overlay. This is partly due to the fact that the ECL model does not fully capture credit risk of loans currently in hardship payment moratoriums related to the pandemic. The management overlay at 31 December 2020 is $23.0m and was recognised in the Loan losses expense in CY2020 and included as part of the collective loss provision.

Refer to Section 3.9 for further information on the impact of COVID-19 on Pepper Money's operations and financial position.

4.2.8 Explanation of non-IFRS and other financial measures

Pepper Money uses certain measures to manage and report on its business that are neither recognised under AAS or IFRS (collectively referred to as "**non-IFRS financial measures**"). These non-IFRS financial measures do not have a prescribed definition under AAS or IFRS and therefore may not be directly comparable to similarly titled measures presented by other entities, nor should they be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS. Although Pepper Money believes these non-IFRS financial measures provide useful information to users in measuring the financial performance and condition of the business, investors are cautioned not to place undue reliance on any non-IFRS financial measures included in this Prospectus.

In this Prospectus, Pepper Money uses the following non-IFRS financial measures:

- **Net interest income**: interest charged on loans provided to borrowers (Mortgages and Asset Finance), income from Mortgage Risk Fees/Loan Protection Fees ("**MRF/LPF**"), loan premium revenue and the funding costs and facility establishment costs associated with the debt raised to fund loan assets. The net interest income is calculated using the Effective Interest Rate ("**EIR**") which includes certain fees and costs incurred which are integral in bringing the loans or associated debt to account (such as upfront Distribution Partner commissions).
- **Total operating income**: net interest income, lending fee income net of lending expenses, whole loan sales (net premium), loan losses and servicing fees and other income.
- **EBITDA**: the net profit/(loss) before interest on Corporate Debt, interest on the lease liability recognised under AASB 16, income tax expense, depreciation (including the right of use asset recognised under AASB 16) and amortisation.
- **Cashflow before lending activities**: net cashflows from operations before movements in loans and advances and excluding income tax paid.
- **Net operating cash flow before taxation and funding**: net cash flows (inclusive of cash interest expense on corporate debt) before financing activities and taxation but including net repayment and draw down of non-recourse funding facilities.
- **Working capital**: prepayments, other debtors, accruals and provisions.
- **Capital expenditure**: includes investment in property and equipment, as well as software and capitalised research and development costs.
- **Cost to income ratio** is calculated as total expenses (including depreciation and amortisation and corporate interest) divided by total operating income excluding loan losses.

4.3 Pro Forma historical and forecast income statements

4.3.1 Pro Forma historical and forecast income statements

Table 19 sets out the Pro Forma historical income statements of Pepper ANZ for CY2018, CY2019 and CY2020, the Pepper ANZ forecast Pro Forma income statement for CY2021F and the Pepper Money forecast statutory income statement for CY2021F. The Pro Forma Financial Information has been derived from the Pepper ANZ audited financial statements adjusted for certain pro forma adjustments. The statutory CY2021F forecast includes the trading results of Rest of World ("ROW" classified as a discontinued operation at CY2020 in accordance with AASB 5 *Assets Held for Sale*) prior to the Restructure and forecast profit on disposal of those businesses.

Table 19: Pepper Money Pro Forma historical and forecast income statements

A$ million	Notes	CY2018	CY2019	CY2020	CY2021F	Statutory CY2021F
Interest income	1	549.9	714.4	705.9	692.3	692.3
Interest expense	2	(357.7)	(445.7)	(353.7)	(336.0)	(336.0)
Net interest income		**192.2**	**268.6**	**352.2**	**356.3**	**356.3**
Lending fee income	3	43.8	53.3	51.3	56.8	56.8
Lending expense	4	(36.2)	(44.3)	(44.8)	(49.3)	(49.3)
Net lending fees		**7.6**	**9.0**	**6.5**	**7.5**	**7.5**
Whole loan sales gain	5	6.9	5.8	9.6	7.4	7.4
Loan losses	6	(41.6)	(41.2)	(56.7)	(44.5)	(44.5)
Servicing fees and other income	7	8.7	6.7	7.3	6.1	6.1
Total operating income		**173.9**	**248.9**	**318.9**	**332.7**	**332.7**
Employee benefits expense	8	(75.3)	(85.7)	(84.0)	(93.7)	(92.5)
Marketing expense	9	(8.1)	(9.4)	(10.4)	(9.4)	(9.4)
Technology expense	10	(11.7)	(17.7)	(19.9)	(18.0)	(18.0)
General and admin expense	11	(14.0)	(18.2)	(19.5)	(12.2)	(21.0)
Occupancy expense	12	(1.5)	(1.6)	(1.5)	(1.6)	(1.6)
Fair value losses on FVTPL investments	13	0.0	(0.1)	(2.9)	0.0	0.0
EBITDA		**63.3**	**116.2**	**180.6**	**197.9**	**190.2**
Depreciation and amortisation expense	14	(12.5)	(24.8)	(24.6)	(21.1)	(21.1)
Corporate interest expense	15	(4.7)	(4.3)	(4.8)	(4.5)	(7.7)
Profit before tax		**46.0**	**87.1**	**151.2**	**172.3**	**161.5**
Tax expense	16	(13.8)	(23.4)	(44.9)	(51.6)	(48.3)
Net Profit from continuing operations		**32.2**	**63.7**	**106.3**	**120.7**	**113.2**
Discontinued operations, net of tax	17					180.1
Statutory profit for the year						**293.3**

Notes:

1. **Interest income**: includes interest revenue, MRF/LPF associated with loan settlements, loan premium revenue and early termination interest adjustments payable upon early redemption. Loan acquisition costs such as upfront Distribution Partner commissions paid are spread across the expected life of the loans. Interest income is recognised using the EIR.
2. **Interest expense**: the interest payable in respect of Warehouse Facilities and Term Securitisations (collectively referred to as "**asset funding**") and facility and establishment costs. Interest expense is recognised using the EIR.
3. **Lending fee income**: upfront loan application and post-settlement fees.
4. **Lending expense**: Distribution Partner trail commission, credit agency fees, trustee fees, custodian fees, back up and standby servicer fees and enforcement fees.
5. **Whole loan sales** ("**WLS**") **gain**: the premium gained on the sale of Pepper Money originated loan portfolios to external third-party buyers, net of transaction costs.
6. **Loan losses**: include specific and collective provisions for loan impairments and other direct write-offs. Specific bad debts and ECL are estimated based on the AUM and the underlying credit risk profile. Specific loan losses are made according to Pepper Money's internal credit policies, taking into account days in arrears, principal outstanding and other micro-level indicators such as a borrower's total repayment history.
7. **Servicing fees and other income**: fees negotiated per contract, including a base and (if applicable) variable component. The servicing rates charged vary depending on the complexity of the portfolio, size of mandate and other relevant servicing factors.
8. **Employee benefits expense**: salaries, wages and other employment related costs for employees including contractors.
9. **Marketing expense**: marketing, advertising, sponsorship initiatives and trademark support costs undertaken, and costs associated to support these.
10. **Technology expense**: communication, software, licensing, telephony and third-party contracting costs to support these.
11. **General and admin expense**: professional expenses including consulting, legal and audit fees and other expenses including various business function and corporate support costs such as travel and entertainment and transitional service costs.

12. **Occupancy expense**: non-lease related occupancy costs such as car parking, signage and special levies, and other property-related expenses, such as electricity and cleaning.
13. **Fair value losses on FVTPL investments**: movements in the fair value of financial assets measured at fair value through profit and loss (FVTPL).
14. **Depreciation and amortisation expense**: the depreciation of property, plant and equipment. Amortisation relates to the capitalised software. Depreciation on a pro forma basis includes depreciation associated with the right of use lease asset (in accordance with AASB 16). Together with the depreciation recognised in respect of the lease liability, the depreciation replaces a rental charge that would have otherwise been included within occupancy expenses.
15. **Corporate interest expense**: the interest paid on the Corporate Debt Facility and interest expense recognised in respect of the lease liability associated with AASB 16.
16. **Tax expense**: reflects the pro forma income tax expense as the estimated effective tax rate for Pepper Money.
17. **Discontinued operations, net of tax**: represents the trading results of Rest of World classified as Held for Sale as at 31 December 2020 and the forecast profit on transfer of the assets outside Pepper Money as part of the Restructure. The Pro Formal Financial Information presents the financial results of Pepper ANZ only and therefore does not include the trading results of Rest of World and impacts of the Restructure.

Table 20 sets out the historical income statements of Pepper ANZ for CY2018, CY2019 and CY2020 and the Pepper ANZ forecast income statement for CY2021F. The historical income statement has been extracted from the Pepper ANZ audited financial statements. The Pepper ANZ forecast income statement is based on the Directors' Best Estimate Assumptions underlying the Forecast Financial Information (refer to Sections 4.8.1 and 4.8.2 for further details), as defined in Section 4.8.2.

Table 20: Pepper ANZ audited historical income statement and Pepper ANZ Forecast income statements

A$ million	Notes	CY2018	CY2019	CY2020	CY2021F
Interest income		549.9	714.4	705.9	692.3
Interest expense		(357.7)	(445.7)	(353.7)	(336.0)
Net interest income		**192.2**	**268.6**	**352.2**	**356.3**
Lending fee income		43.8	53.3	51.3	56.8
Lending expense		(36.2)	(44.3)	(44.8)	(49.3)
Net lending income		**7.6**	**9.0**	**6.5**	**7.5**
Whole loan sales gain		6.9	5.8	9.6	7.4
Loan losses		(41.6)	(41.2)	(56.7)	(44.5)
Servicing fees and other income		8.7	6.7	7.3	6.1
Total operating income		**173.9**	**248.9**	**318.9**	**332.7**
Employee benefits expense		(76.4)	(87.2)	(81.7)	(92.5)
Marketing expense		(8.1)	(9.4)	(10.4)	(9.4)
Technology expense		(11.7)	(17.7)	(19.9)	(18.0)
General and admin expense		(8.4)	(16.2)	(19.6)	(21.0)
Occupancy expense		(5.4)	(1.6)	(1.5)	(1.6)
Fair value losses on FVTPL investments		0.0	(0.1)	(5.2)	0.0
EBITDA		**63.9**	**116.6**	**180.6**	**190.2**
Depreciation and amortisation expense		(9.6)	(24.8)	(24.6)	(21.1)
Corporate interest expense		(0.0)	(0.9)	(1.4)	(7.7)
Profit before tax		**54.3**	**90.9**	**154.5**	**161.5**
Tax expense		(16.3)	(24.5)	(45.9)	(48.3)
Profit from continuing operations		**38.0**	**66.4**	**108.6**	**113.2**

Notes: Refer to Table 19 for definitions.

Table 21 sets out the reconciliation of Pepper ANZ NPAT to Pepper ANZ Pro Forma NPAT.

Table 21: Pro forma adjustments to the Pepper ANZ income statement and Pepper ANZ forecast income statement

A$ million	Notes	CY2018	CY2019	CY2020	CY2021F
Pepper ANZ NPAT		**38.0**	**66.4**	**108.6**	**113.2**
Impact of new accounting standard	1	(0.3)	–	–	–
Redundancy and other restructuring costs	2	0.3	2.1	3.0	–
Standalone costs	3	(3.8)	(3.1)	(0.8)	–
Public company costs	4	(1.8)	(1.8)	(1.8)	(0.3)
Employee Remuneration Plans	5	0.7	(0.6)	(3.0)	(1.4)
Employee debt costs	6	(3.4)	(0.5)	(0.9)	3.2
Offer costs	7	–	–	0.1	9.3
Tax impact of adjustments	8	2.5	1.2	1.0	(3.2)
Pepper ANZ Pro Forma NPAT		**32.2**	**63.7**	**106.3**	**120.7**

Notes:

1. **Impact of new accounting standard**: the retrospective application of AASB 16 *Leases* requires the recognition of the majority of lease liabilities on the balance sheet, together with a related right of use asset. As a result, the income statement shows lease expense as depreciation relating to the right of use asset and interest relating to the lease liability rather than the rent expense being shown as an occupancy expense. AASB16 Leases was effective for financial periods beginning on or after 1 January 2019 and therefore the pro forma adjustments are made to CY2018 assuming the accounting standard had been in effect from 1 January 2018.
2. **Redundancy and other restructuring costs**: removal of one-off restructuring costs associated with the change in structure of enablement functions in CY2019 and impairment in CY2020 of the loan receivable relating to the CY2019 sale of the Personal Loan book. Given the change in strategy from originating to servicing the Personal Loan book the loan write off has been adjusted to remove impact of loss.
3. **Standalone costs**: net charges as Pepper Money establishes itself as a standalone entity on the ASX. A Transitional Services Agreement ("**TSA**") has been entered into for select service areas such as WLS, Corporate and Transactional Advisory Services and transaction tax-related matters. Standalone costs also consider the provision of a Trademark License Agreement ("**TMA**") and removal of legacy intercompany arrangements with Pepper Global.
4. **Public company costs**: the estimated additional annual costs associated with being a listed entity. These costs include Directors' fees, listing fees, Directors' and Officers' insurance premiums and other compliance related fees associated with being a listed entity.
5. **Employee Remuneration Plans**: reflects the new Employee Remuneration Plans that will be in place following completion of the Offer being applied to the historical period. This includes the revised Equity Remuneration Plans and Short Term Incentive Plan and removes the impact of the IPO Bonus Plan and one-off employee grant of Restricted Shares associated with the Offer as described in Section 6.5.
6. **Corporate debt costs**: overlay of the assumed interest expense associated with the draw down of the Corporate Debt Facility of A$50 million on listing.
7. **Offer Costs**: costs in relation to the Offer, including Joint Lead Managers' underwriting fees, legal and accounting due diligence fees, tax and structuring advice, associated consulting fee and advisory fees associated with the Offer. The forecast Offer costs of $24.4 million in relation to this Prospectus have been apportioned between equity and expense, with $9.3 million forecast to be expensed in accordance with AAS.
8. **Tax impact of adjustments**: the net tax effect of the Pro Forma adjustments.

In addition, the reconciliation between Pepper Money statutory financial statements and the Pepper Money Financial Information is included in Appendix A.

4.3.2 Key financial and operating metrics

Table 22 provides a summary of the Pro Forma historical key operating and financial metrics for CY2018, CY2019 and CY2020 and Pro Forma forecast key operating and financial metrics for CY2021F.

Table 22: Pepper Money Pro Forma operating and financial metrics

A$ million	Notes	CY2018	CY2019	CY2020	CY2021F
Operating					
Originations	1	6,541	5,895	4,601	6,560
AUM – lending (closing)	2	10,732	13,123	13,308	15,128
AUM – servicing (closing)	3	1,606	1,575	1,734	1,649
Financial					
Operating income	4	173.9	248.9	318.9	332.7
EBITDA	5	63.3	116.2	180.6	197.9
Net Profit from continuing operations		32.2	63.7	106.3	120.7
Operating growth rates (prior comparative period)					
Originations			(9.9%)	(21.9%)	42.6%
AUM – lending (closing)			22.3%	1.4%	13.7%
AUM – servicing (closing)			(1.9%)	10.1%	(4.9%)
Financial growth rates (prior comparative period)					
Operating income			43.1%	28.1%	4.3%
EBITDA			83.4%	55.5%	9.5%
Net Profit from continuing operations			97.7%	66.8%	13.6%
Profitability					
Net interest margin	6	2.17%	2.25%	2.66%	2.51%
Employee benefits expense/Total operating income	7	43.3%	34.4%	26.3%	28.2%
Cost-to-income ratio	8	59.3%	55.8%	44.6%	42.5%
Asset quality					
90+ days past due % closing lending AUM	9	0.84%	0.89%	0.95%	0.95%
Total losses % average lending AUM	10	0.47%	0.35%	0.43%	0.31%
Return					
Operating income yield	11	1.64%	1.84%	2.14%	2.09%

Notes:

1. **Originations**: new loans originated during the period.
2. **AUM – lending (closing)**: originated and serviced AUM (securitised and Pepper Money balance sheet lending).
3. **AUM – servicing (closing)**: loan portfolios of third parties which are serviced by Pepper Money.
4. **Operating income**: includes net interest income, lending fee income, lending expenses, WLS gain, loan losses and servicing fees and other income.
5. **EBITDA**: earnings before corporate interest expense, including the interest charge associated with AASB 16, income tax expense, depreciation (including the right of use asset recognised under AASB 16 relating to premise leases) and amortisation.
6. **Net interest margin**: net interest income divided by average lending AUM.
7. **Employee benefits expense/Total operating income**: employee benefits expenses divided by total operating income, as defined above.
8. **Cost-to-income ratio**: total operating expenses including depreciation and amortisation and corporate interest expense divided by total operating income before loan losses.
9. **90+ days past due % closing lending AUM**: loans where borrowers have not made the full payment of interest or principal for an amount exceeding 3 monthly instalments, divided by closing lending AUM.
10. **Total losses % average lending AUM**: loan losses expense divided by average lending AUM.
11. **Operating income yield**: operating income after loan losses divided by average lending and servicing AUM for the relevant period and expressed on an annualised basis.

4.4 Segment information

Pepper Money intends to report three operating segments, namely Mortgages, Asset Finance and Loan and Other Servicing, in accordance with AASB 8 *Operating Segments*. The operating segments are described below.

In addition to the segments identified above, Management has identified the Corporate division for inclusion in the segment disclosures. The Corporate division does not meet the definition of an operating segment because it does not earn revenue.

4.4.1 Mortgages

Mortgages, which includes both residential mortgages in Australia and New Zealand and CRE mortgages in Australia, had lending AUM of $10.7 billion as at 31 December 2020 (this amount excludes servicing AUM). The results include the income and expenses associated with the origination and ongoing ownership of Mortgages in Australia and New Zealand. Mortgage lending includes residential prime and non-conforming lending.

4.4.2 Asset Finance

Asset Finance lending AUM was $2.6 billion as at 31 December 2020. This (outlined below in this Section 4.4.5) includes the income and expenses associated with the origination and ongoing ownership of loans secured over a range of assets, including used and new cars, caravans, motor bikes and boats, and equipment finance under $100,000 in Australia. In Q4 CY2020 Pepper Money also commenced originating Novated Leases.

4.4.3 Loan and Other Servicing

Loan and Other Servicing AUM was $1.7 billion as at 31 December 2020. This includes the income and expenses associated with the servicing of loan portfolios for third parties, and for Pepper Money controlled limited recourse Funding Vehicles. Other AUM includes Personal Loans originated until November 2019, after which Pepper Money moved to a white label arrangement for this product. In Q4 CY2020 Pepper Money also commenced Broker servicing for third parties.

4.4.4 Pro Forma historical and forecast income statements by segment

The Pepper Money Pro Forma historical income statements and Pro Forma forecast income statement are subject to the Directors' Best Estimate Assumptions underlying the Forecast Financial Information (refer to Sections 4.8.1 and 4.8.2 for further details).

Table 23 sets out the Pepper Money Pro Forma income statements for CY2018, CY2019 and CY2020 and the Pepper ANZ forecast Pro Forma income statement for CY2021F by operating segment.

Table 23: Pro Forma historical and forecast income statements by operating segment

		Historical			Forecast	CAGR (%)	YoY (%)
A$ million	Notes	CY2018	CY2019	CY2020	CY2021F	CY2018-CY2020	CY2020-CY2021F
Mortgages							
Net interest income	1	141.9	199.6	270.6	259.5	38.1%	(4.1%)
Loan losses		(8.5)	(11.2)	(21.2)	(9.8)	57.6%	(53.8%)
Other operating income	2	(8.1)	(11.9)	(10.0)	(13.1)	11.2%	30.3%
Operating income	3	**125.2**	**176.4**	**239.3**	**236.6**	**38.2%**	**(1.1%)**
Asset Finance							
Net interest income	1	40.8	59.2	81.6	96.8	41.4%	18.6%
Loan losses		(25.7)	(30.8)	(35.0)	(34.7)	16.6%	(0.7%)
Other operating income	2	25.3	31.0	28.9	28.7	6.7%	(0.6%)
Operating income	3	**40.4**	**59.4**	**75.5**	**90.7**	**36.7%**	**20.2%**
Loan and Other Servicing							
Operating income		8.2	13.1	4.1	5.3	(29.7%)	31.6%
Total operating income		**173.9**	**248.9**	**318.9**	**332.7**	**35.4%**	**4.3%**
Operating expenses		(110.6)	(132.7)	(138.3)	(134.8)	11.8%	(2.5%)
EBITDA		**63.3**	**116.2**	**180.6**	**197.9**	**68.9%**	**9.5%**
Depreciation and amortisation		(12.5)	(24.8)	(24.6)	(21.1)	40.1%	(14.3%)
Corporate interest expense		(4.7)	(4.3)	(4.8)	(4.5)	1.0%	(6.6%)
Profit before tax		**46.0**	**87.1**	**151.2**	**172.3**	**81.2%**	**13.9%**
Tax expense		(13.8)	(23.4)	(44.9)	(51.6)	80.3%	14.7%
Profit from continuing operations		**32.2**	**63.7**	**106.3**	**120.7**	**81.5%**	**13.6%**

Notes:

1. **Net interest income**: interest charged on loans provided to borrowers (Mortgages and Asset Finance), income from MRF/LPF, loan premium revenue and the funding costs and facility establishment costs associated with the debt raised to fund these assets. The net interest income is calculated using the EIR which includes certain fees and costs incurred which are integral in bringing the loans or associated debt to account (such as upfront Distribution Partner commissions).
2. **Other operating income:** lending fee income, lending expenses, whole loan sales gain and servicing fees and other income.
3. **Operating income**: includes net interest income, lending fee income, lending expenses, whole loan sale gain, loan losses and servicing fees and other income.
4. Refer to Table 19 for additional line item definitions.

4.4.5 Segment Pro Forma historical and forecast operating and financial metrics

Table 24 below sets out the Pro Forma historical key operating and financial metrics for CY2018, CY2019 and CY2020 and the Pro Forma forecast key operating and financial metrics for CY2021F by operating segment.

Table 24: Segment Pro Forma historical and forecast operating and financial metrics

		Historical			Forecast	CAGR (%)[1]	YoY (%)[2]
A$ million	**Notes**	**CY2018**	**CY2019**	**CY2020**	**CY2021F**	**CY2018-CY2020**	**CY2020-CY2021F**
Mortgages							
Originations	1	5,412	4,583	3,383	4,880	(20.9%)	44.3%
AUM – lending (closing)		8,783	10,738	10,663	11,942	10.2%	12.0%
Net interest margin	2	1.97%	2.04%	2.53%	2.30%	27.8bps	(23.3)bps
Total losses % lending AUM	3	0.12%	0.12%	0.20%	0.09%	4.0bps	(11.2)bps
Asset Finance							
Originations		1,051	1,278	1,218	1,680	7.7%	37.9%
AUM – lending (closing)		1,849	2,385	2,645	3,186	19.6%	20.4%
Net interest margin		2.55%	2.79%	3.24%	3.32%	34.6bps	7.4bps
Total losses % lending AUM		1.61%	1.45%	1.39%	1.19%	(11.0)bps	(19.9)bps
Loan and Other Servicing							
Originations		78	35	0	0	(100.0%)	0.0%
AUM – servicing (closing)	4	1,606	1,575	1,734	1,649	3.9%	(4.9%)
Servicing revenue	5	6.0	3.2	3.5	4.2	(23.5%)	19.3%
Servicing revenue as % of AUM – servicing (average)	6	0.34%	0.20%	0.21%	0.25%	(6.5)bps	3.6bps

Notes:

1. **Originations**: new loans originated during the period. For Loan and Other Servicing, this refers to originations for Personal Loans only up to November 2019.
2. **Net interest margin**: net interest income divided by average lending AUM.
3. **Total losses % lending AUM**: the average of loan losses divided by average lending AUM.
4. **AUM – servicing**: third-party servicing AUM and AUM of Personal Loans up to November 2019.
5. **Servicing revenue**: income associated with the servicing of loan portfolios to third parties, and for Pepper Money controlled limited recourse Funding Vehicles. Service revenue excludes net interest income earned on Personal Loan AUM up to and including November 2019.
6. **Servicing revenue as % of AUM – servicing (average)**: servicing revenue divided by average servicing AUM.

1. Net interest margin, Total losses % lending AUM and Servicing revenue as % of AUM calculated as average change between CY2018 and CY2020 in basis points.
2. Net interest margin, Total losses % lending AUM and Servicing revenue as % of AUM calculated as change between CY2020 and CY2021 in basis points.

4.5 Pepper Money and Pro Forma historical consolidated balance sheet

4.5.1 Overview

The statutory balance sheet of Pepper Money as at 31 December 2020 reflects the consolidation of all operating and special purpose vehicles that it controls. This includes the assets and liabilities of the Rest of World that were transferred out of Pepper Money through a number of restructure steps that were completed in preparation for the Offer.

The Pro Forma balance sheet of Pepper Money as at 31 December 2020 reflects certain Pro Forma adjustments to include the impacts of the Restructure. These includes the part repayment of the Bridge Facility and conversion of that facility into the Corporate Debt Facility. The adjustments also consider the net impact of the Offer and implementation of the new Employee Remuneration Plans that will be established on completion of the Offer.

The impact of this change, together with other Pro Forma adjustments, reflect the impact of the operating and capital structures that will be in place following Completion of the Offer as if they had occurred or were in place as at 31 December 2020.

4.5.2 Pro Forma historical balance sheet

The Pro Forma balance sheet of Pepper Money as at 31 December 2020 is provided for illustrative purposes only and is not represented as being necessarily indicative of Pepper Money's view on its future financial profile.

Table 25: Pro Forma historical consolidated balance sheet as at 31 December 2020

A$ million	Notes	Reported Pepper Money Dec 20	Impact of Restructure[1]	Impact of Offer[2]	Pro Forma Pepper Money Balance Sheet Dec 20
Assets					
Cash	3	885.6	(6.3)	0.5	879.8
Derivative financial assets		1.1			1.1
Receivables		5.3			5.3
Other assets		4.0			4.0
Loans and advances	4	13,310.8			13,310.8
Deferred tax assets		52.3		9.9	62.3
Other financial assets	5	19.6			19.6
Property, plant and equipment		13.6			13.6
Intangible assets		38.9			38.9
Total assets		**14,331.2**	**(6.3)**	**10.4**	**14,335.3**
Liabilities					
Derivative liabilities	6	(86.7)			(86.7)
Trade and other payables		(15.2)		1.0	(14.2)
Related party payables	7	–	(241.2)	241.2	–
Current tax liabilities		(37.8)			(37.8)
Corporate Debt Facility	8	(190.7)	(133.8)	274.5	(50.0)
Non-recourse facilities	9	(13,606.4)			(13,606.4)
Other liabilities		(21.6)			(21.6)
Provisions		(18.8)			(18.8)
Total liabilities		**(13,977.0)**	**(375.1)**	**516.7**	**(13,835.4)**
Net assets					
Assets held for sale	10	8,769.2	(8,769.2)		–
Liabilities associated with AHFS	11	(8,388.4)	8,388.4		–
Net assets held for sale and distribution		380.7	(380.7)		–
Total net assets		**734.9**	**(762.1)**	**527.1**	**499.9**
Equity					
Issued share capital		601.8	(401.3)	531.0	731.5
Other equity		(19.5)	19.5	8.6	8.6
Other reserves		(45.6)	14.0		(31.6)
Retained earnings		197.2	(394.3)	(12.6)	(209.6)
Non-controlling interest		1.0			1.0
Total equity		**734.9**	**(762.1)**	**527.1**	**499.9**

Notes:

1. **Impact of Restructure**: Pro Forma adjustments reflect the net impact of the Restructure including transfer of the assets and liabilities of the Rest of World of $380.7 million (net) outside Pepper Money, the transfer to Pepper Money, and the making by Pepper Money of additional, related party loans associated with previous Management share schemes, establishment of the Shareholder Loan (refer to Section 9.5.2), certain distributions to entities outside the Pepper Money consolidated group and draw down of the Bridge Facility.

2. **Impact of the Offer**: Pro Forma adjustments to account for the Offer proceeds and costs. Increase in issued share capital represents the primary issue of $541.6 million of shares inclusive of $41.6 million of New Shares issued to Pepper ANZ HoldCo in satisfaction of part repayment of the Shareholder Loan. The balance of the proceeds received will be used to settle the Shareholder Loan and associated accrued interest, partially repay of the Bridge Facility, as well as the outstanding transaction costs associated with the Offer ($24.4 million). Of the total offer costs, $6.5 million (tax effected) is forecast to be expensed and the remainder offset against issued capital on the balance sheet in accordance with accounting standards. Other equity includes an amount of $8.6 million associated with the establishment of the new Pepper Money Executive and Employee Remuneration arrangements (including recognition of a deferred tax asset of $2.6 million). As a result of the above, issued capital will increase by $531.0 million.
3. **Cash**: comprises cash at bank that is held at the Corporate level, cash in transit, and restricted cash held in the limited recourse funding vehicles (as collateral for warehouse funders and investors).
4. **Loans and advances**: primarily consists of customer loan receivables which are held in Warehouse Facility and Term Securitisation Funding Vehicles (net of loan impairment provisions) and includes transaction costs directly attributable to the origination of loans. Transaction costs include Distribution Partner fees and commissions capitalised on the balance sheet as part of loans and advances and which are amortised through the income statement using an EIR.
5. **Other financial assets**: include equity investments at FVTPL and debt investments at amortised cost. The equity investments consist of shares held by Pepper Money in various private companies in Australia while the debt investments include a number of debt portfolio investments held at amortised cost.
6. **Derivative liabilities**: liability position resulting from hedging of interest rate and foreign exchange rate exposure, under the terms and conditions of borrowing facilities and relevant trust deeds.
7. **Related party payables**: Relates to Shareholder Loans that arrive through the Restructure. The proceeds of the Offer are expected to be used to settle the Shareholder Loan.
8. **Corporate Debt Facility**: as at 31 December 2020 relates to a previous corporate debt facility which was replaced by a Bridge Facility of $325 million on 23 March 2021. Following completion of the Offer, the Bridge Facility will convert into a Corporate Debt Facility with a commitment of $200 million and which is forecast to be drawn to $50 million on Completion.
9. **Non-recourse facilities**: borrowings that are initially measured at fair value of the consideration received, less any directly attributable transaction costs. After initial recognition, external borrowings are measured at amortised cost using the effective interest rate method. Borrowings consist of securitised term funding facilities and secured warehouse facilities.
10. **Assets held for sale**: include assets associated with the Rest of World that are classified as AHFS at 31 December 2020 and will be transferred outside Pepper Money as part of the Restructure.
11. **Liabilities associated with AHFS**: liabilities associated with the Rest of World that are classified as Held for Sale as at 31 December 2020 and will be transferred outside Pepper Money as part of the Restructure.

4.5.3 Indebtedness, capital and liquidity

Pepper Money's principal sources of funding for investing and general corporate activities comprise cash generated from operations, cash on hand, and borrowings available under Pepper Money's Corporate Debt Facility. Following Completion of the Offer, Pepper Money's Corporate Debt Facility will be drawn to $50.0 million, with Pepper Money's Pro Forma unrestricted cash balances as at 31 December 2020 being $85.1 million.

As at 31 December 2020, Pepper Money had in place $3.2 billion of drawn and $7.8 billion of committed Warehouse Facilities, resulting in a $4.6 billion of undrawn capacity, in order to fund its loan origination activities specific to Pepper Money[3]. In addition, as at 31 December 2020, Pepper Money also had $10.4 billion in Term Securitisations outstanding, with Pepper Money periodically accessing the debt capital markets through the issuance of Term Securitisations to refinance drawn balances under its Warehouse Facilities. The current outstanding issuance under Pepper's various Term Securitisation programs is set out in Section 3.6. Pepper Money provides first loss funding to support Funding Vehicles by subscribing to the Junior Securities in the capital structure.

Based on the above liquidity position and capital resources, Pepper Money expects to have sufficient working capital at the time of its admission to the ASX, including access to its undrawn Corporate Debt Facility, to carry out its stated objective, including meeting operational needs, planned investment, growth objectives and capital requirements to support growth in lending AUM over the Forecast Period.

Table 26 sets out Pepper Money's indebtedness as at 31 December 2020 on a Pro Forma basis. The Pro Forma balance sheet of Pepper Money as at 31 December 2020 has been adjusted to reflect the impact of the Offer.

3. Excluding the settlement warehouse and including Pepper Money.

Table 26: Pepper Money Pro Forma indebtedness as at 31 December 2020

A$ million	Notes	Pro Forma post Offer
Funding Vehicle debt (non-recourse debt)		
Warehouse Facility borrowings	1	3,187.9
Term Securitisation funding	2	10,418.4
Total limited recourse funding		**13,606.4**
Restricted cash and cash equivalents in Funding Vehicles	3	(789.8)
Net limited recourse debt – Warehouse Facility and Term Securitisation Funding Vehicles		**12,816.6**
Corporate debt (recourse debt)		
Loans and borrowings	4	50.0
Less: unrestricted corporate cash and cash equivalents	5	(90.0)
Net Corporate Debt		**(40.0)**
Net total debt (Funding Vehicles and Corporate)		**12,776.6**
Balance sheet		
Total assets		14,335.3
Total equity		499.9
Key metrics		
Net total debt/Total assets		89.1%
Net Corporate Debt/Total equity		(8.0%)
Net Corporate Debt/CY2021F EBITDA		(0.2)x

Notes:

1. **Warehouse Facility borrowings**: limited recourse funding vehicles established by Pepper Money and provided by funding partners that finance the origination or purchase of new loans, or the purchase of loans from Term Transactions to facilitate the exercise and fulfilment of the call options
2. **Term Securitisation funding**: a pool of assets initially funded through one or more Warehouse Facilities are grouped together and sold to a new funding vehicle (term securitisation), which then issues securities against those assets to either public wholesale markets or a single or small number of investors
3. **Restricted cash and cash equivalents in Funding Vehicles**: balances held in the limited recourse Financing Vehicles.
4. **Loans and borrowings**: reflects the drawdown of the Corporate Debt Facility post the Offer.
5. **Unrestricted corporate cash and cash equivalents**: balances held in corporate entities.

4.5.4 Limited-recourse funding

4.5.4.1 Warehouse Facilities

As at 31 December 2020, Pepper Money had $3.2 billion of Warehouse Facility borrowings, and $4.6 billion of undrawn capacity across its 10 Warehouse Facilities[4]. Refer to Section 3.6 and Section 9 for a description of Pepper Money's Warehouse Facility funding arrangements.

4.5.4.2 Term Securitisations

Pepper Money has deep funding expertise, having executed 41 public Term Securitisations, as well as numerous private Term Securitisations.

See Sections 3.6.4.2 and Section 9 for a description on Pepper Money's Term Securitisation funding arrangements.

4. Excluding the settlement warehouse and including Pepper Money.

4.5.5 Description of the Corporate Debt Facility

4.5.5.1 Overview

On 23 March 2021, Pepper Money entered into a Bridge Facility with a number of lenders. The Bridge Facility will convert into the Corporate Debt Facility following Completion of the IPO subject to a number of conditions, including that no Event of Default is subsisting or will occur as a result of the IPO, the facility is repaid to a drawn balance of no greater than $50 million, and the Net Leverage Ratio (defined in Section 4.5.5.5) is no greater than 1.0x. The Corporate Debt Facility matures on the third anniversary of the IPO. The Corporate Debt Facility is documented on the terms of a Syndicated Facility Agreement, together with relevant security and ancillary documents, all of which are common across all lenders.

4.5.5.2 Amount

The total aggregate limit under the Corporate Debt Facility is $200 million. At the Prospectus Date, the Bridge Facility is anticipated to be drawn to $325 million but will be partially repaid with the proceeds of the Offer. Following the application of proceeds of the Offer and conversion into the Corporate Debt Facility, the facility is anticipated to be drawn to $50 million.

4.5.5.3 Interest rate

The Corporate Debt Facility bears interest at the 90-day bank bill swap rate (bid), or if the interest period is longer than 3 months the rate for a period equal in length to the interest period (in each case subject to a floor of 0.00%), plus a margin. There are no hedging arrangements in place for the facility. Undrawn commitment fees are charged at 40% of the margin.

4.5.5.4 Guarantees and securities

The Corporate Debt Facility is guaranteed by Pepper Money and Pepper Asset Finance Pty Ltd (PAF), (each a **Guarantor**), with provision in the Corporate Debt Facility for other wholly owned subsidiaries to become Guarantors in the future. Subject to exceptions, each Guarantor grants security over all of its assets in favour of a security trustee to secure the Corporate Debt Facility.

4.5.5.5 Financial covenants

The Corporate Debt Facility is subject to a set of financial covenants that apply to Pepper Money. These financial covenants are tested semi-annually at each six-month period ending 30 June and 31 December, with the first test being carried out as at 31 December 2021.

Pepper Money expects to be in compliance with these financial covenants for the Forecast Period.

The key components of these financial covenants are summarised below:

Table 27: Key components of financial covenants

Covenant name	Calculation	Required Level
Interest cover ratio	• The ratio of LTM financing EBITDA to net interest expense	• Must be greater than or equal to 2.50:1
Net leverage ratio	• The ratio of net senior debt to financing EBITDA	• Must be less than or equal to 2.75:1

4.5.5.6 Conditions precedent for utilisations

The Corporate Debt Facility contains conditions precedent for utilisations that include no events of default or potential events of default, representations and warranties being correct in all material respects and compliance with prescribed performance triggers under the financial covenants.

4.5.5.7 Review event

The Corporate Debt Facility includes a “review event” that, after completion of the Offer, will be triggered if a person or group or people acting in concert (other than KKR Credit Advisors (US) LLC and its affiliates), directly or indirectly acquires ownership and control of at least 50.1% of the voting shares of Pepper Money. There are other review event triggers for certain extended suspensions of trading, or a delisting, from the ASX. Any such review event could result in full repayment of the Corporate Debt Facility being required (after certain negotiation and notice periods have elapsed).

Upon the occurrence of a review event, there will be a 45-day negotiation period and, failing agreement, a lender may require the repayment in full of all amounts outstanding under the relevant Corporate Debt Facility within 90 days.

4.5.5.8 Distributions

Under the Corporate Debt Facility, Pepper Money is not permitted to declare a dividend or any other form of distribution to its Shareholders or pay any management fee to any shareholder or affiliate where an event of default is subsisting or would result from doing so, or if the relevant dividend or distribution is not permitted under the Corporations Act.

4.5.5.9 Other

The Corporate Debt Facility is subject to representations and warranties, undertakings, events of default and other terms and conditions. An event of default includes non-payment, a breach of a financial or other covenant and events related to insolvency. Upon an event of default occurring, with the consent or on the instructions of a lender or lenders whose exposures are in aggregate more than two thirds of the total commitments, the Agent can cancel the commitment of the lender under the Corporate Debt Facility and declare that all or part of the amounts owing under the Corporate Debt Facility are due and payable immediately, or may enforce the security.

4.6 Pro Forma Historical and Forecast Cash Flows

Table 28 presents the Pro Forma cash flow statements of Pepper ANZ for CY2018, CY2019 and CY2020, the Pepper ANZ forecast Pro Forma cash flow statement for CY2021F.

The Pepper ANZ forecast Pro Forma cash flow statement for CY2021F is based on the Pepper Money Forecast Statutory cash flow statement for CY2021F, incorporating the Pro Forma adjustments reflecting the full year effect of certain operating costs that will be in place on Completion of the Offer as if the operating costs had been incurred from 1 January 2021.

4.6.1 Pro Forma Historical and Forecast Net Cash Flow

Table 28 sets out the Pepper Money Pro Forma cash flow statements for CY2018, CY2019 and CY2020 and the Pepper Money Pro Forma cash flow statement for CY2021F. The Pro Forma Forecast Cash Flow is subject to the Directors’ Best Estimate Assumptions underlying the Forecast Financial Information (refer to Sections 4.8.1 and 4.8.2 for further details), as defined in Section 4.8.2.

Table 28: Pro Forma Historical and Forecast Net Cash Flow

		Pro Forma Historical			Pro Forma	Statutory[10]
A$ million	**Notes**	**CY2018**	**CY2019**	**CY2020**	**CY2021F**	**CY2021F**
Pepper ANZ Profit before tax		**46.0**	**87.1**	**151.2**	**172.3**	**161.5**
Add back non-cash items:						
Depreciation and amortisation		12.5	24.9	27.5	21.1	21.1
Amortisation of loan origination/ debt issuance costs	1	41.7	56.3	67.2	74.9	74.9
Loan loss		41.6	41.2	56.7	44.5	44.5
Other non-cash items	2	4.5	4.7	(1.4)	(3.0)	(3.0)
Movement in working capital	3	0.5	5.4	8.8	8.8	8.8
Cash flows before loans and advances		**146.8**	**219.6**	**310.0**	**318.7**	**307.9**
Capital expenditure	4	(18.1)	(19.4)	(11.2)	(10.5)	(10.5)
Other investing activities	5	(4.8)	(18.8)	(3.9)	–	–
Repayment of lease liability	6	(3.9)	(8.1)	(8.4)	(7.5)	(7.5)
Net movements in loans and advances	7	(3,802.2)	(2,500.4)	(267.8)	(1,874.1)	(1,874.1)
Increase/(repayment) of borrowings	8	3,676.0	2,582.9	61.7	1,780.0	1,780.0
Net lending activities		**(126.2)**	**82.5**	**(206.1)**	**(94.1)**	**(94.1)**
Net cash flow before corporate financing and taxation		**(6.2)**	**255.9**	**80.5**	**206.6**	**195.8**
Impact of the Restructure						(6.3)
Proceeds from the Offer						500.1
IPO offer costs						(25.4)
Net repayment of debt facilities	9					(274.5)
Repayment of Shareholder Loan						(199.7)
Income tax paid						(58.4)
Net cash flow before dividends and distributions						**131.6**

Notes:

1. **Amortisation of loan origination/debt issuance costs**: is the amortisation of costs associated with Distribution Partner fees payables in connection with the loan origination and/or amortisation of costs associated with establishing the Funding Vehicles used to fund Pepper Money's loan origination activities. Fees are capitalised and amortised using the EIR or on a straight-line basis over the anticipated terms of the relevant Funding Vehicles.
2. **Other non-cash items**: include the non-cash impact of changes in share-based payments and other non-cash operating expenses.
3. **Movement in net working capital**: includes the non-cash impact of the change in receivables, prepayments and trade and other payables.
4. **Capital expenditure**: includes investments in in-house purpose built platforms, equipment, software and licence assets, information technology infrastructure and software expenditure, office infrastructure and fittings.
5. **Other investing activities**: reflects net payments for external investments.
6. **Repayment of lease liability**: reflects payments associated with lease and rental occupancy expenses.
7. **Net movements in loans and advances**: loans and advances primarily consists of customer loan receivables which are held in Warehouse Facility and Term Securitisation Funding Vehicles (net of loan impairment provisions) and includes transaction costs directly attributable to the origination of loans. Transaction costs include Distribution Partner fees and commissions capitalised on the balance sheet as part of loans and advances and which are amortised to the income statement using an EIR.
8. **Increase/(repayment) of borrowings**: relates to the net cash flows from movements in non-recourse facilities and directly attributable transaction costs.
9. **Net repayment of debt facilities**: includes $275.0 million repayment of the Bridge Facility on conversion to the Corporate Debt Facility and other cash movements of $0.5 million.
10. **Statutory CY2021F**: The statutory CY2021F forecast net cashflows before corporate financing and taxation include the forecast cashflow for Pepper ANZ adjusted for the impacts of the Restructure and the Offer. The cashflow statements presented in the statutory financial statement of Pepper Money at 31 December 2021 will likely include cashflows from ROW which will be disclosed separately.

4.6.2 Pro Forma adjustments to the Pepper Money historical cash flows before financing and taxation and Pepper Money forecast cash flow statement

Table 29 sets out a reconciliation of the Pepper ANZ cash flow statements to the Pepper ANZ Pro Forma cash flow statement for CY2018, CY2019, CY2020 and CY2021F.

Table 29: Pro Forma adjustments to the Pepper Money historical net cash flow before financing and taxation

A$ million	Notes	CY2018	CY2019	CY2020	CY2021F
Net cash flow before corporate financing and taxation		**1.8**	**259.7**	**86.1**	**195.8**
Impact of new accounting standard	1	–	–	–	–
Redundancy and other restructure costs	2	0.3	2.1	0.7	–
Standalone costs	3	(3.8)	(3.1)	(0.8)	–
Public company costs	4	(1.8)	(1.8)	(1.8)	(0.3)
Employee Remuneration Plans	5	0.7	(0.6)	(3.0)	(1.4)
Corporate debt costs	6	(3.4)	(0.5)	(0.9)	3.2
Offer Costs	7	–	–	0.1	9.3
Pro Forma net cash flow before corporate financing and taxation		**(6.2)**	**255.9**	**80.5**	**206.6**

Notes:

1. **Impact of new accounting standard**: the retrospective application of AASB 16 *Leases* requires the recognition of the majority of lease liabilities on the balance sheet, together with a related right of use asset. As a result, the income statement shows lease expense as depreciation relating to the right of use asset and interest relating to the lease liability rather than the rent expense being shown as an occupancy expense. AASB16 *Leases* was effective for financial periods beginning on or after 1 January 2019 and therefore the pro forma adjustments are made to CY2018 assuming the accounting standard had been in effect from 1 January 2018.
2. **Redundancy and other restructuring costs**: removal of one-off restructuring costs associated with the change in structure of enablement functions in CY2019 and impairment in CY2020 of the loan receivable relating to the CY2019 sale of the Personal Loan book. Given the change in strategy from originating to servicing the Personal Loan book the loan write off has been adjusted to remove impact of loss.
3. **Standalone costs**: net charges as Pepper Money establishes itself as a standalone entity on the ASX. A Transitional Services Agreement ("**TSA**") has been established for select service areas such as Whole Loan Sales, Corporate and Transactional Advisory Services and transaction tax-related matters. Standalone costs also consider the provision of a Trademark License Agreement ("**TMA**") and removal of legacy transfer pricing arrangements with Pepper Global.
4. **Public company costs**: the estimated additional annual costs associated with being a listed entity. These costs include Directors fees, listing fees, Directors' and Officers' insurance premiums and other compliance related fees associated with being a listed entity.
5. **Employee Remuneration Plans**: reflects the new Employee Remuneration Plans that will be in place following completion of the Offer being applied to the historical period. This includes the revised Equity Remuneration Plans and Short Term Incentive Plan and removes the impact of the IPO Bonus Plan and one-off employee grant of Restricted Shares associated with the Offer as described in Section 6.5.
6. **Corporate debt costs**: overlay of the assumed interest expense associated with the drawn down of the Corporate Debt Facility of A$50 million on listing.
7. **Offer Costs**: costs in relation to the Offer, including Joint Lead Managers' underwriting fees, legal and accounting due diligence fees, tax and structuring advice, associated consulting fee and advisory fees associated with the Offer. The forecast Offer costs of $24.4 million in relation to this Prospectus have been apportioned between equity and expense, with $9.3 million forecast to be expensed in accordance with AAS.

4.7 Management Discussion and Analysis of the Pro Forma Financial Information

4.7.1 General factors affecting the operating results

Set out below is a discussion of the general factors that affected Pepper Money's operations and relative financial performance in CY2018, CY2019 and CY2020, and which the Directors expect may continue to affect its operating and financial performance in the Forecast Period. This section also includes a discussion of key factors and specific assumptions underpinning the forecast financial performance in CY2021F. Comments relating to the forecast financial performance in CY2021F should be read in conjunction with the key General Assumptions set out in Section 4.8 and the risk factors set out in Section 5.

The discussion in this Section 4.7 focuses on the Pro Forma Financial Information. The discussion of the key factors affecting the historic and forecast financial performance is intended to provide a summary only and does not detail all factors that affected Pepper Money's historical operating and financial performance, nor everything that may affect Pepper Money's operations and financial performance in the future.

Table 30: Pro Forma historical and forecast consolidated income statements

	Historical			Forecast	CAGR (%)	YoY (%)
A$ million	**CY2018**	**CY2019**	**CY2020**	**CY2021F**	**CY2018-CY2020**	**CY2020-CY2021F**
Interest income	549.9	714.4	705.9	692.3	13.3%	(1.9%)
Interest expense	(357.7)	(445.7)	(353.7)	(336.0)	(0.6%)	(5.0%)
Net interest income	**192.2**	**268.6**	**352.2**	**356.3**	**35.4%**	**1.2%**
Lending fee income	43.8	53.3	51.3	56.8	8.2%	10.6%
Lending expense	(36.2)	(44.3)	(44.8)	(49.3)	11.2%	9.9%
Net lending fees	**7.6**	**9.0**	**6.5**	**7.5**	**(7.5%)**	**15.1%**
Whole loan sales (net premium)	6.9	5.8	9.6	7.4	17.6%	(22.7%)
Loan losses	(41.6)	(41.2)	(56.7)	(44.5)	16.8%	(21.5%)
Servicing fees and other income	8.7	6.7	7.3	6.1	(8.5%)	(17.1%)
Total operating income	**173.9**	**248.9**	**318.9**	**332.7**	**35.4%**	**4.3%**
Employee benefits expense	(75.3)	(85.7)	(84.0)	(93.7)	5.6%	11.5%
Marketing expense	(8.1)	(9.4)	(10.4)	(9.4)	13.4%	(9.7%)
Technology expense	(11.7)	(17.7)	(19.9)	(18.0)	30.6%	(9.4%)
General and admin expense	(14.0)	(18.2)	(19.5)	(12.2)	18.1%	(37.7%)
Occupancy expense	(1.5)	(1.6)	(1.5)	(1.6)	1.6%	1.9%
Fair value losses on FVTPL investments	0.0	(0.1)	(2.9)	0.0	0.0%	(100.0%)
EBITDA	**63.3**	**116.2**	**180.6**	**197.9**	**68.9%**	**9.5%**
Depreciation and amortisation expense	(12.5)	(24.8)	(24.6)	(21.1)	40.1%	(14.3%)
Corporate interest expense	(4.7)	(4.3)	(4.8)	(4.5)	1.0%	(6.6%)
Profit before tax	**46.0**	**87.1**	**151.2**	**172.3**	**81.2%**	**13.9%**
Tax expense	(13.8)	(23.4)	(44.9)	(51.6)	80.3%	14.7%
NPAT	**32.2**	**63.7**	**106.3**	**120.7**	**81.5%**	**13.6%**

4.7.1.1 Operating income

The components of Pepper Money's operating income are:

- **Net interest income**: derived from the difference between the interest income earned on loans provided to borrowers (Mortgages and Asset Finance) and the interest expense associated with the debt raised to fund these assets. The net interest income is calculated using the EIR, which includes certain fees and costs incurred which are integral in bringing the loans or associated debt to account.
- **Lending fee income**: including upfront loan application and post settlement fees.
- **Lending fee expense**: including trail Distribution Partner commissions, trustee fees, custodian fees, back-up and standby servicer fees, and enforcement fees.
- **Whole loan sales (net premium)**: representing the premium gained on the sale of Pepper Money originated loan portfolios to external third-party buyers, net of transaction costs.
- **Loan losses**: comprising specific and collective bad debts and provisions:
  - **specific bad debts expense**, which occur when the business identifies specific advances outstanding that are at risk of being unpaid and expenses some or all of the outstanding balance. Specific bad debts expense are impairments made according to internal credit policies, taking into account days in arrears, the principal outstanding and other micro-level indicators such as a borrower's total repayment history; and
  - **collective bad debt expense**, which is based on expected credit loss under *AASB 9*, applying indicators such as the probability of default, exposure at default and loss given default. This includes a forward-looking expectant default based on economic and other relevant business indicators.
- **Servicing fees and other income**: fees negotiated per contract, including a base and variable component.

The key drivers of operating income include:

- **Customer acquisition and volume**:
  - the **volume** and **composition** of new loans originated and the **average size** of the new loans;
  - the **total value (AUM)** of Mortgage and Asset Finance lending, and other loans for which Pepper Money either lends to borrowers or provides servicing and management functions;
  - the **contracted rates** of loans originated, including management fees, administration and other fees; and
  - the **rate of prepayment** of loans by borrowers, and the engagement with borrowers to maintain customer satisfaction over the life of the loans, which affects **customer retention and renewal**.
- **Credit**:
  - Pepper Money's ability to **price for risk** across the risk spectrum;
  - Pepper Money's **credit capabilities** enhanced by its **cascading credit model** and 20+ years' of **data**; and
  - the **quality of the assets** in the portfolio.
- **Portfolio mix and net interest margin**:
  - the **mix between existing segments** – Mortgages and Asset Finance as well as the **annuity earnings stream** generated from Pepper Money's third-party portfolio servicing;
  - the **mix of originations** – particularly across Prime and Non-Conforming Mortgages in Australia, the customer profile targeted by the Asset Finance business, as well as the level and frequency of acquisition of loan portfolios; and
  - the **impact on the net interest margin** from **portfolio mix** due to the level and type of originations and **competition** in the Mortgages and Asset Finance business.
- **Distribution**:
  - the growth in Pepper Money's **distribution network** from the expansion in the number and breadth of Distribution Partners;
  - Pepper Money's **ongoing strength of relationships** with Distribution Partners such as key aggregators;
  - increase **indirect and white-label distribution**; and
  - targeting and realisation of **new distribution and affiliation opportunities**.

- **Funding**:
  - the **cost of funding**, including the Bank Bill Swap Rate ("**BBSW**") and the margins charged by lenders under Warehouse Facilities or applicable to securities issued as part of Term Securitisations;
  - the **exposure levels** of the senior and mezzanine components of Warehouse Facilities and Term Securitisations;
  - the **contracted rates** under servicing and Funding Vehicle management contracts; and
  - the **quantum of undrawn commitments** in the senior and mezzanine components of Warehouse Facilities and the level at which fees are charged on such undrawn amounts.
- **Data and technology**:
  - the depth and breadth of Pepper Money's **data capabilities**;
  - Pepper Money's **investment and development of in-house purpose build platforms** to support volume growth and realise operational efficiencies; and
  - Pepper Money's **technological differentiators**, such as Pepper Product Selector™ and Pepper Resolve™.
- **New business development**:
  - Pepper Money's extension into **new products and markets**, such as entry into New Zealand Mortgages and entry into CRE in Australia; and
  - the frequency of, and the income generated from WLS.

4.7.1.2 Operating expenses

Key expenses include:

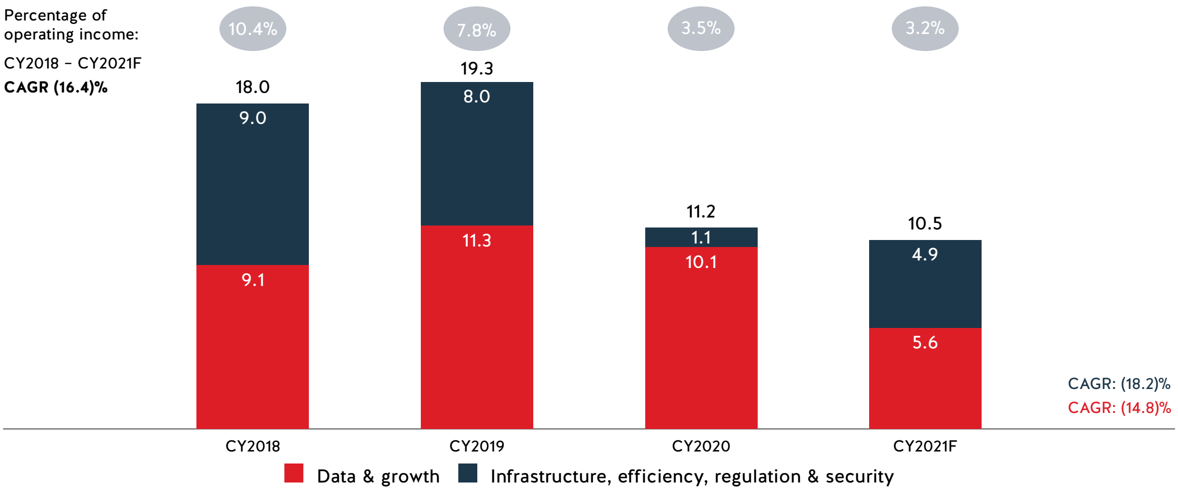
- **Employee benefits expense**: salaries, wages, incentives and other employment-related costs for employees including contractors as well as the mix of FTEs across geographies, specifically the number of FTEs in Pepper Money's Manila shared services operations versus FTEs in Australia;
- **Marketing expense**: the ongoing investment behind building awareness of Pepper Money, including advertising and sponsorship, direct marketing expenditure to support lead generation and customer acquisition, and trademark license costs;
- **Technology expense**: the investment in platforms that allow Pepper Money to support origination growth and realise operational and credit efficiencies as well as communication, software, licensing, telephony and third-party contracting costs;
- **General and administration expense**: comprises professional and other expenses. Professional expenses include consulting, legal and audit fees. Other expenses include various business function and corporate support costs such as travel and entertainment expenses and transitional services costs;
- **Occupancy expense**: comprises non-lease related occupancy costs and other property-related expenses;
- **Fair value losses on FVTPL investments**: fair value movements on financial assets measured at fair value through profit and loss;
- **Depreciation and amortisation expense**: depreciation of fixed assets within the business and amortisation of technology; and
- **Corporate interest expense**: interest payable on the Corporate Debt Facility and interest on lease liability recognised in accordance with AASB 16 *Leases*.

4.7.1.3 Capital expenditure

Capital expenditure includes investments in in-house, purpose-built platforms, equipment, software and licence assets, information technology infrastructure and software expenditure, office infrastructure and fittings. Pepper Money has invested in capital expenditure to support growth in Mortgages and Asset Finance, including in the development of platforms to deliver scale and operational efficiency as well as to ensure systems are fit-for-purpose and compliant with regulatory requirements. This expenditure peaked in CY2019 at $19.3 million (representing 7.8% of operating income) with capital expenditure increasing as business operations matured and as initiatives – such as Comprehensive Credit Reporting – were successfully undertaken. In CY2021F, capital expenditure is expected to normalise to $10.5 million (representing 3.2% of operating income) as the significant capital expenditure programs will have been undertaken and the business will focus on its ongoing investment spend to maintain.

Figure 117 summarises Pepper Money's capital expenditure across the historical and forecast period (technology expenses are discussed in detail in Section 4.7.3.3).

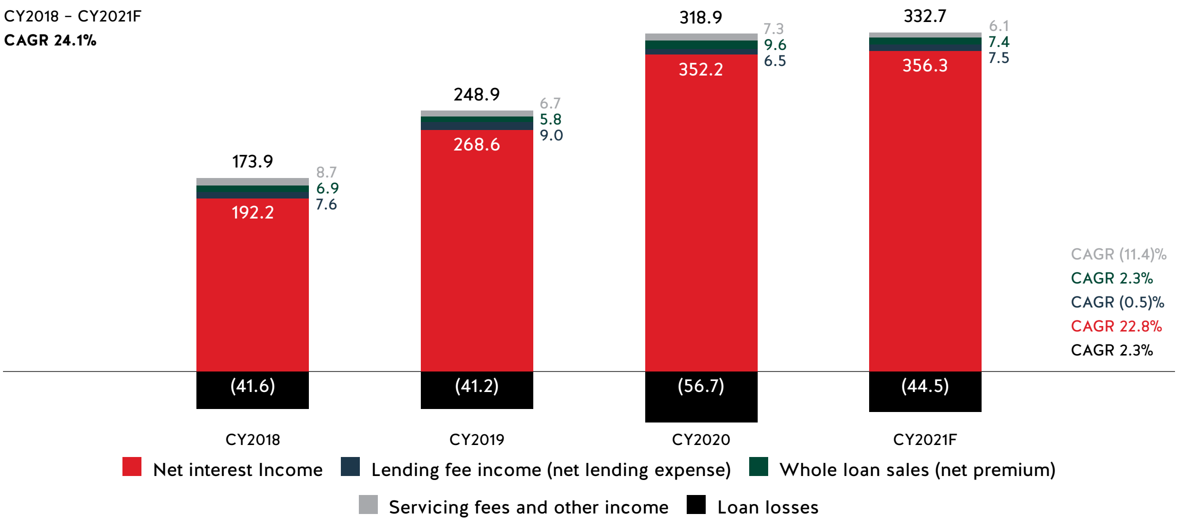
Figure 117: Pepper Money's capital expenditure CY2018 – CY2021F



4.7.2 Operating income

As discussed in Section 4.7.1, Pepper Money derives three main types of operating income. This Section 4.7.2 considers some of the Directors' Estimates behind each of these key line items. Figure 118 below summarises the key movements in operating income between CY2018 and CY2021F. Each of the key line items that constitute operating income are then considered in the following sub-sections.

Figure 118: Pepper Money's Pro Forma historical and forecast Total Operating Income – CY2018 to CY2021F



4.7.2.1 Net interest income

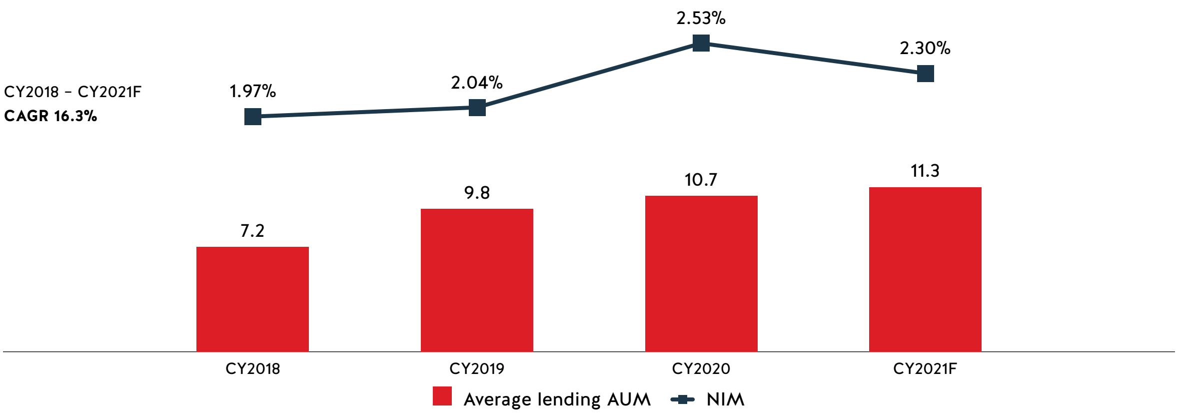
	Mortgages		
	CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
	Historical		Forecast
Net interest income	Increased from **$141.9 million** to **$199.6 million**, representing an increase of **40.7%**.	Increased from **$199.6 million** to **$270.6 million**, representing an increase of **35.6%**.	Forecast to decrease from **$270.6 million** to **$259.5 million**, representing a decrease of **(4.1%)**.
Net interest margin	Increased from **1.97%** to **2.04%** due to: • Pepper Money being focused on maintaining a disciplined approach to risk-based pricing and restricting lending to certain borrower types and geographies; • Pepper Money's Prime Mortgages decreasing to c. 50% of Mortgage originations in CY2019, down from c. 55% in CY2018; and • a more favourable differential between BBSW and the RBA cash rate decreasing funding costs.	Increased from **2.04%** to **2.53%** due to: • reduction in BBSW funding rates as a result of RBA's decision to reduce the cash rate; and • implementation of a range of targeted policy initiatives that produced a favourable expansion in NIM across the Mortgage portfolio as front book rates did not reduce as quickly or compress by as much as underlying funding rates.	Forecast to decrease from **2.53%** to **2.30%** due to: • expected NIM compression: – tighter market pricing following Q4 CY2020 RBA cash rate reduction; and – mix shift of the book towards more Prime in CY2020 – 48% of the Mortgage AUM was Prime compared with 57% of Mortgage originations given credit appetite under COVID-19; • partially offset by lower funding costs; – underlying funding base rates (1M BBSW) forecast to remain at or near zero in early months of the CY2021, with a progressive step up to 0.15% by December 2021 (with CY2021 average assumed to be 0.08%); and – external margins on future term securitisation deals forecast to price at 1.63% for PRS series and 1.13% for I-Prime series.[5]
Closing AUM	Increased from **$8.8 billion** to **$10.7 billion**, representing an increase of **22.3%** due to: • growth largely tracking movements in originations; and • WLS of **$278.0 million**, **$29.1 million** less than prior year. Average lending AUM increased from **$7.2 billion** to **$9.8 billion**, representing an increase of **35.7%**.	Minor reduction from **$10.7 billion** to **$10.7 billion**, representing a decrease of **(0.7%)** due to: • revision in credit appetite to manage and mitigate credit risk as part of policy response to COVID-19 generating lower origination. Average lending AUM increased from **$9.8 billion** to **$10.7 billion**, representing an increase of **9.6%**.	Forecast to increase from **$10.7 billion** to **$11.9 billion**, representing an increase of **12.0%**, due to: • CY2020 growth constrained by impact of COVID-19 crisis; and • reversion to higher growth rates that occurred in Q4 CY2020, forecasted to continue into CY2021, underpinned by strong lending market conditions. Average lending AUM forecast to increase from **$10.7 billion** to **$11.3 billion**, representing an increase of **5.6%**.

5. These figures represent the weighted average margin for these deals.

Mortgages	CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
	Historical		Forecast
Originations	Reduced from **$5.4 billion** to **$4.6 billion**, representing a decrease of **(15.3%)**, due to: • regulatory and political events weighing on market demand, and the softening in the market caused by factors such as the Banking Royal Commission and property price compression; • active Distribution Partners starting to reach scale, increasing from 4,883 in CY2018 to 5,042 in CY2019, up 0.6%; and • the launch of New Zealand and CRE in Q4 CY2019 with originations of $41 million and $55 million respectively.	Decreased from **$4.6 billion** to **$3.4 billion**, representing a decrease of **(26.2%)**, due to: • Management's action to manage both credit and liquidity risk across the business through a slowdown in originations in response to COVID-19. This also aligned with reduced market demand for Mortgages in response to COVID-19; • strong focus on management of backbook exposures; • mix of portfolio origination towards Asset Finance in response to strong underlying market demand; • reduced market demand for Mortgages as a result of COVID-19 in 1H CY2020 as lockdowns persisted and consumer confidence temporarily reduced; and • evidence of improvement in 2H CY2020.	Forecast to increase from **$3.4 billion** to **$4.9 billion**, representing an increase of **44.3%**, due to: • forecast originations reflecting a return to around CY2019 levels as consumer confidence returns, in turn driving a strong increase in originations; and • increases in both prime ($2.3 billion) and non-conforming ($2.2 billion) residential originations in Australia, while New Zealand continues at growth rates in excess of 50% (off a lower base of $88 million in CY2020) due to favourable market dynamics and improved broker penetration.

Figure 119 below illustrates Pepper Money's average Mortgage lending AUM and NIM between CY2018 and CY2021F.

Figure 119: Pepper Money's Pro Forma historical and forecast average Mortgage lending AUM and NIM – CY2018 to CY2021F (A$ billion)



Asset Finance

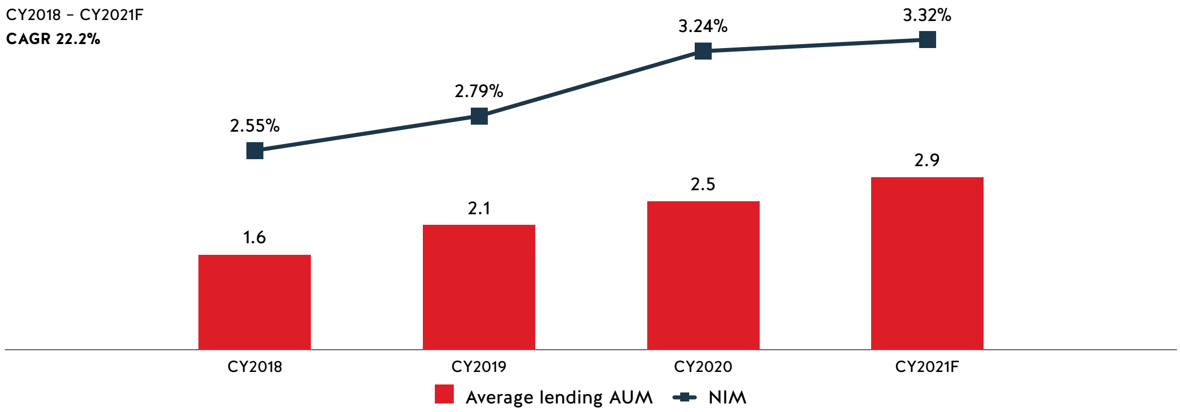
	CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
	Historical		Forecast
Net interest income	Increased from **$40.8 million** to **$59.2 million**, representing an increase of **45.0%**.	Increased from **$59.2 million** to **$81.6 million**, representing an increase of **37.9%**.	Forecast to decrease from **$81.6 million** to **$96.8 million**, representing a decrease of **(18.6%)**.
Net interest margin	Increased from **2.55%** to **2.79%** primarily due to: • a decrease in funding costs as a result of lower average swap costs; and • a small shift towards Tier B and Tier C customers at the end of CY2019. Both the customer tiers and asset types financed remained broadly stable over the period.	Increased from **2.79%** to **3.24%** due to: • increase in borrower demand driven by favourable market dynamics following from the commencement of the lifting of COVID-19 restrictions; • combination of Government-led fiscal stimulus initiatives and reduced availability of imported vehicles led to favourable conditions in underlying core markets where Pepper has strong positions (e.g. second-hand auto/equipment markets); and • Management acceleration of Asset Finance originations in 2H CY2020 over 1H CY2020 as customer and market dynamics improved.	Forecast to increase from **3.24%** to **3.32%**, due to: • favourable trends experienced from late Q3 CY2020 expected to continue in CY2021F as strong borrower demand persists; • continuation of lower funding base rates and strong market demand for lending forecast to underpin ongoing NIM expansion; and • ongoing Government-led fiscal stimulus initiatives will support market growth over the medium term, which will continue to support favourable NIM dynamics as asset class demand increases.
Closing AUM	Increased from **$1.8 billion** to **$2.4 billion**, representing an increase of **28.9%** due to: • growth in underlying asset finance originations of 22.0%. Average lending AUM increased from **$1.6 billion** to **$2.1 billion**, representing an increase of **32.4%**.	Increased from **$2.4 billion** to **$2.6 billion**, representing an increase of **10.9%** due to: • favourable market dynamics in 2H CY2020 supporting origination growth. Average lending AUM increased from **$2.1 billion** to **$2.5 billion**, representing an increase of **18.8%**.	Forecast to increase from **$2.6 billion** to **$3.2 billion**, representing an increase of **20.4%**, due to: • favourable market dynamics present in 2H CY2020 expected to continue in CY2021F as strong origination growth persists. Average lending AUM forecasted to increase from **$2.5 billion** to **$2.9 billion**, representing an increase of **15.9%**.

Asset Finance

	CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
	Historical		Forecast
Originations	Increased from **$1.1 billion** to **$1.3 billion**, representing an increase of **21.6%**, due to: • business achieving scale; • the continued targeting of specific market segments and asset types, such as caravans which represented 14% of originations in the period; • development of automated processes rapidly accelerating loan approvals for customers due to Pepper Money's scaling of its in-house purpose built technology; and • continued growth in Accredited Distribution Partners, including new Affinity Partners (for example, Bobcat), supporting growth in Active Distribution Partners from 813 in CY2018 to 906 in CY2019, up 11.4%.	Decreased from **$1.3 billion** to **$1.2 billion**, representing a decrease of **(4.6%)**, due to: • a 25.8% reduction in consumer originations, offset by a 37.8% increase in commercial originations; • lower CY2020 consumer originations reflecting the change in credit appetite made by Management to reduce originations given COVID-19. Originations improved in 2H CY2020 vs 1H CY2020 with borrower confidence returning as lockdowns ended; and • growth in commercial originations reflecting the impact of Government tax and investment incentives for small business, particularly in 2H CY2020.	Forecast to increase from **$1.2 billion** to **$1.7 billion**, representing an increase of **37.9%**, due to: • forecast originations reflecting the ongoing performance of 4Q CY2020 as favourable market dynamics continue to support growth in originations; and • originations across both commercial and consumer customers expected to increase, with commercial originations growing 24.0% and consumer originations growing 35.6%.

Figure 120 below illustrates Pepper Money's average Asset Finance lending AUM and NIM between CY2018 and CY2021F.

Figure 120: Pepper Money's Pro Forma historical and forecast average Asset Finance lending AUM and NIM – CY2018 to CY2021F (A$ billion)



4.7.2.2 Lending fee income and lending expense

Net lending fee income and expense

	CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
	Historical		Forecast
Net lending fee income and expense	Increased from **$7.6 million** to **$9.0 million**, representing an increase of **18.4%**. Lending fee income increased from **$43.8 million** (0.7% of originations) to **$53.3 million** (0.9%), representing an increase of **21.5%**. Lending fee expense increased from **$36.2 million** (0.3% of closing AUM) to **$44.3 million** (0.3%), representing an increase of **22.2%**.	Decreased from **$9.0 million** to **$6.5 million**, representing a decrease of **(27.7%)**. Lending fee income decreased from **$53.3 million** (0.9% of originations) to **$51.3 million** (1.1%), representing a decrease of **(3.6%)**. Lending fee expense increased from **$44.3 million** (0.3% of closing AUM) to **$44.8 million** (0.3%), representing an increase of **1.3%**.	Forecast to increase from **$6.5 million** to **$7.5 million**, representing an increase of **15.1%**. Lending fee income forecast to increase from **$51.3 million** (1.1% of originations) to **$56.8 million** (0.9%), representing an increase of **10.6%**. Lending fee expense forecast to increase from **$44.8 million** (0.3% of closing AUM) to **$49.3 million** (0.3%), representing an increase of **9.9%**.
Mortgages	Decreased from **$(16.2) million** to **$(19.9) million**, representing a decrease of **23.0%**. Lending fee income increased from **$15.3 million** (0.3% of originations) to **$18.7 million** (0.4%), representing an increase of **22.3%**, due to lower originations growth year on year. Lending fee expense increased from **$31.4 million** (0.4% of closing AUM) to **$38.5 million** (0.4%), representing an increase of **22.6%**, reflecting slower AUM growth year on year.	Increased from **$(19.9) million** to **$(19.3) million**, representing an increase of **3.0%**. Lending fee income decreased from **$18.7 million** (0.4% of originations) to **$16.6 million** (0.5%), representing a decrease of **(10.9%)**, due to reduced originations as mentioned above (with some improvement in 2H CY2020). Lending fee expense decreased from **$38.5 million** (0.4% of closing AUM) to **$35.9 million** (0.3%), representing a decrease of **(4.9%)**.	Forecast to decrease from **$(19.3) million** to **$(20.5) million**, representing a decrease of **(6.2%)**. Lending fee income forecast to increase from **$16.6 million** (0.5% of originations) to **$19.7 million** (0.4%), representing an increase of **18.7%**, due to elevated origination activity from higher loan demand as favourable market conditions flow from CY2020 into CY2021F (as mentioned above). Lending fee expense increased from **$35.9 million** (0.3% of closing AUM) to **$40.2 million** (0.3%), representing an increase of **12.0%**, which corresponds with the expected increase in lending activity driven by higher originations.

Net lending fee income and expense

	CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
	Historical		Forecast
Asset Finance	Increased from **$23.8 million** to **$28.8 million**, representing an increase of **21.3%**. Lending fee income increased from **$28.4 million** (2.7% of originations) to **$34.4 million** (2.7%), representing an increase of **21.1%**, which was less than the prior period reflecting a slowdown in growth in originations as the Asset Finance business successfully scaled over the past three years. Lending fee expense increased from **$4.6 million** (0.2% of closing AUM) to **$5.5 million** (0.2%), representing an increase of **20.0%**, which was less than the prior period as Asset Finance originations had reached scaled in Q4 2018 from which it has continued to grow.	Decreased from **$28.8 million** to **$27.7 million**, representing a decrease of **(3.8%)**. Lending fee income increased from **$34.4 million** (2.7% originations) to **$34.7 million** (2.8%), representing an increase of **1.0%**, decline in new originations offset by a shift in portfolio mix within the Asset Finance class (higher commercial activity). Lending fee expense increased from **$5.5 million** (0.2% of closing AUM) to **$7.0 million** (0.3%), representing an increase of **27.3%**, with new originations higher in commercial loans (on a relative basis) where lending expenses are typically higher than consumer loans.	Forecast to increase from **$27.7 million** to **$28.0 million**, representing an increase of **1.1%**. Lending fee income forecast to increase from **$34.7 million** (2.8% originations) to **$37.0 million** (2.2%), representing an increase of **6.7%**, due to strong increases in origination activity across both commercial and consumer portfolios (as mentioned above). Lending fee expense forecasted to increase from **$7.0 million** (0.3% of closing AUM) to **$9.0 million** (0.3%), representing an increase of **28.6%**, reflecting the expected higher activity across both commercial and consumer portfolios.

4.7.2.3 Whole Loan Sales (net premium)

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Decreased from **$6.9 million** to **$5.8 million**, representing a decrease of **(16.1%)**, due to: • Management's decision to retain AUM due to reduced Mortgage originations during the period; and • the sale of the personal loans book crystallising a loss of **$(0.8) million** in Q4 CY2019. Income generated through the WLS program represented **1.5%** of total loans sold during the period.	Increased from **$5.8 million** to **$9.6 million**, representing an increase of **64.8%**, due to: • market opportunities such as future opportunities to sell Mortgage loans to more Mortgage lenders. Income generated through WLS arrangements represented **2.3%** of total loans sold during the period.	Forecast to decrease from **$9.6 million** to **$7.4 million**, representing a decrease of **(22.7%)**, due to: • reversion to long-term average of $400 million in WLS per annum. Income generated through WLS arrangements represented **1.9%** of total loans sold during the period.

4.7.2.4 Loan losses

Loan losses

	CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
	Historical		Forecast
Loan losses	Decreased from **0.39%** of lending AUM to **0.31%**, reflecting continued improvement in customer and asset quality across both Mortgages and Asset Finance. In dollar terms, loans losses decreased from **$41.6 million** to **$41.2 million**, representing a decrease of **(0.7%)**.	Increased from **0.31%** of lending AUM to **0.42%**, reflecting increased provisions (management overlay) given portfolio stress resulting from the COVID-19 pandemic. Management overlay of $23.0 million at 31 December 2020 and was included as part of the collective provision. In dollar terms, loan losses increased from **$41.2 million** to **$56.7 million**, representing an increase of **37.4%**.	Forecast to decrease from **0.42%** of lending AUM to **0.29%**, reflecting stabilisation and increased quality of loan book as effects of COVID-19 gradually decline. In dollar terms, loan losses are expected to decrease from **$56.7 million** to **$44.5 million**, representing a decrease of **(21.5%)**.
Mortgages	Stable at **0.12%** of average lending AUM, due to: • continued improvement in asset quality across the Mortgage portfolio; and • realisation of the benefits of the investment in collections processing, including more intelligent credit processing functions such as the scaling of Pepper Money's Cascading Credit Model, which resulted in an increase in loan loss provisions given increased volume of originations, but a stabilisation of loan loss provisions as a percentage of lending AUM. In dollar terms, losses increased from **$8.5 million** to **$11.2 million**, representing an increase of **31.5%**.	Increased from **0.12%** of average lending AUM to **0.20%**, due to: • the onset of COVID-19 led to elevated stress in the portfolio and increased hardships, which resulted in an increase in loan loss provisions, as well as an increase in provisions as a percentage of lending AUM; and • COVID-19 management overlay included given the ECL model does not fully capture credit risk of loans in hardships payments moratoriums related to the pandemic. In dollar terms, losses increased from **$11.2 million** to **$21.2 million**, representing an increase of **88.8%**.	Forecast to decrease from **0.20%** of average lending AUM to **0.09%**, due to: • return to CY2018 and CY2019 levels (removing the impact of a $3.0 million overlay release in CY2021F, provision expenses as a percentage of average lending AUM are 0.12%). In dollar terms, losses are forecasted to decrease from **$21.2 million** to **$9.8 million**, representing a decrease of **(53.8%)**.

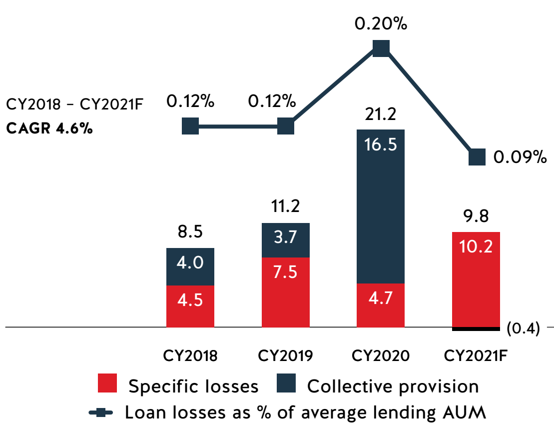
Loan losses

	CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
	Historical		Forecast
Asset Finance	Decreased from **1.61%** of average lending AUM to **1.45%**, due to: • continued improvement in asset quality and the ongoing positive impact of credit appetite changes from the prior period; • strong performance of targeted borrower profiles and asset types; and • the benefits of auto-decisioning initiatives from the prior period positively impacting credit processes and collections, which resulted in an increase in loan loss provisions given increased volume of originations, but a decrease in loan loss provisions as a percentage of average lending AUM. In dollar terms, losses increased from **$25.7 million** to **$30.8 million**, representing an increase of **19.6%**.	Reduced from **1.45%** of average lending AUM to **1.39%**, due to: • specific loan losses as percentage of average lending AUM of 1.01% and collective loan losses as percentage of average lending AUM of 0.38%; • management including a collective overlay for COVID-19 related impacts of 0.28% of average lending AUM; and • Pepper Money observed a higher prepayment rate in the Asset Finance portfolio over Q2 – Q3 CY2020, which has contributed to lower losses experienced. Prepayment rate has returned to longer term average. In dollar terms, losses increased from **$30.8 million** to **$35.0 million**, representing an increase of **13.5%**.	Forecast to decrease from **1.39%** to **1.19%**, due to: • $7.0 million release of COVID-19 management overlay and a further $3.7 million release of collective provisions reflecting continued improved quality and performance of the portfolio. In dollar terms, losses forecasted to decrease from **$35.0 million** to **$34.7 million**, representing a decrease of **(0.7%)**.

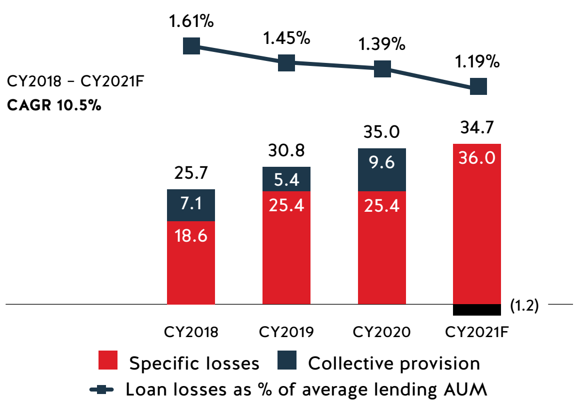
Figure 121 below illustrates Pepper Money's loan loss provision expense across Mortgages and Asset Finance between CY2018 and CY2021F.

Figure 121: Pepper Money's Pro Forma historical and forecast loan loss provisions across Mortgages and Asset Finance – CY2018 to CY2021F

Mortgages



Asset Finance



4.7.2.5 Servicing fees and other income

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Decreased from **$8.7 million** to **$6.7 million**, representing a decline of **(23.2%)** largely due to the sale of the Personal Loan book at the end of CY2019.	Increased from **$6.7 million** to **$7.3 million**, representing an increase of **9.1%**, given the sale of the Personal Loan book with the servicing retained.	Forecast to decrease from **$7.3 million** to **$6.1 million**, representing a decline of **17.1%**, due to lower average Servicing AUM over the period.

4.7.3 Operating expenses

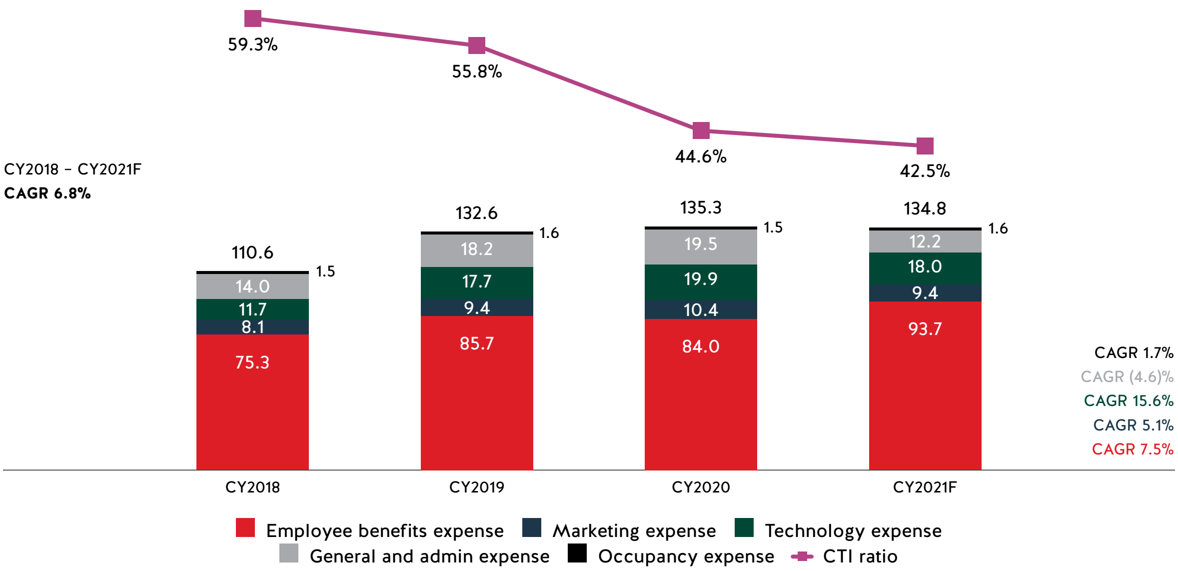
Pepper Money's total operating expenses are expected to increase from $110.6 million in CY2018 to $134.8 million in CY2021F representing a CAGR of c. 6.8%. Pepper Money's operating expenses increase reflects the development of, and growth in, each of the core business segments – Mortgages, Asset Finance and Loan and Other Servicing. The investment in people, technology and operational capabilities has helped:

- to support scale of the Mortgage business, with closing lending AUM growing to $10.7 billion as at 31 December 2020, a growth of 10.2% CAGR on CY2018;
- efficient entry into both the Australian CRE and New Zealand markets in Q4 CY2020; and
- the organic growth of the Asset Finance business, with launch to maturity in under five years.

The continued investment in technology is expected to support future growth in both Mortgages and Asset Finance originations. In addition, the Manila shared service operations are expected to provide ongoing efficiencies for the Pepper Money business, given the lower operating cost of the Philippines vs Australia.

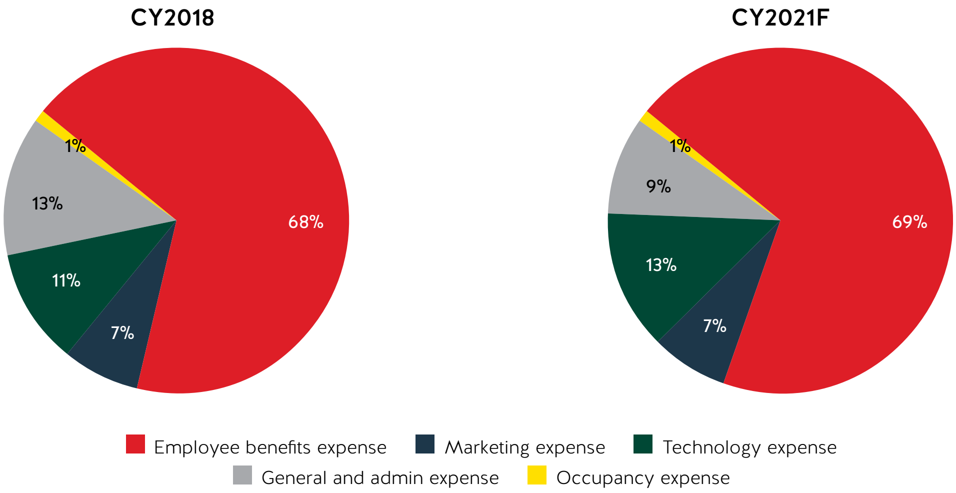
Pepper Money's cost-to-income ("**CTI**") ratio improved from 59.3% in CY2018 to 44.6% in CY2020. Continued scale and operating efficiencies support a CTI forecast of 42.5% in CY2021F. Figure 122 below illustrates Pepper Money's operating expenses (excluding fair value losses on FVTPL investments) and cost-to-income ratio between CY2018F and CY2021F.

Figure 122: Pepper Money's Pro Forma historical and forecast total operating expenses (excluding Fair value losses on FVTPL investments) and CTI – CY2018 to CY2021F (A$ million)



As the Pepper Money business continues to grow in Australia and New Zealand the mix of operating expenses will continue to shift. CY2020 expenses reflect actions taken under COVID-19 to manage discretionary spend, including recruitment and incentive freezes. As origination growth returned over Q3 – Q4 CY2020, recruitment freezes were lifted and investment to support growth recommenced.

Figure 123: Pepper Money's Pro Forma historical and forecast operating expense mix – CY2018 and CY2021F

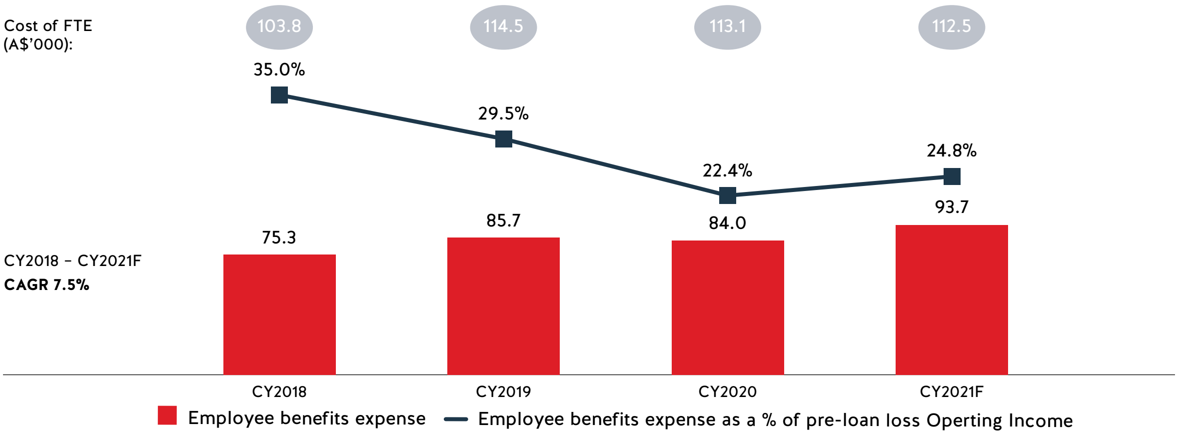


4.7.3.1 Employee benefits expense

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Increased from **$75.3 million** to **$85.7 million**, representing an increase of **13.7%**, due to: • growth in FTE to support business momentum such as in Asset Finance to support forecast originations in that business and incremental growth to support the New Zealand and CRE new business initiatives; • continued growth in the Manila shared services facility, which increased from **149** FTE as at 31 December 2018 to **195** FTE as at 31 December 2019 as the function achieved economies of scale; • increases in total FTE from **726** FTE as at 31 December 2018 to **748** FTE as at 31 December 2019 largely reflecting higher Manila FTE; and • wages growth in line with inflation. As a percentage of the total FTE base, offshore employees, based in the Philippines, constituted **26.1**% of total employees as at 31 December 2019. Employee benefits expense reduced as a percentage of pre-loan loss Operating Income from **35.0%** to **29.5%**, reflecting the benefits of economies of scale and the Manila shared services facility.	Decreased from **$85.7 million** to **$84.0 million**, or **2.0%**, due to: • broadly stable headcount across the Australia and New Zealand operations with run-rate FTE balanced to support originations growth while also managing reductions from the impact of COVID-19; • salary and wage costs being broadly stable in CY2020 versus CY2019; and • staff incentive and share based payments reducing between CY2019 and CY2020 as a result of reduced and foregone incentive payments to manage the impacts of COVID-19. Employee benefits expense reduced as a percentage of pre-loan loss Operating Income from **29.5%** to **22.4%**, reflecting reductions mentioned above in addition to the continued benefits of economies of scale and the Manila shared services facility.	Forecast to increase from **$84.0 million** to **$93.7 million**, representing an increase of **11.5%**, due to: • expected wage inflation of 4%; • headcount forecast to increase to 833 in CY2021, as vacancies are filled and FTEs are added to Manilla to support Broker Servicing business; and • revised staff incentive and share based payments. Employee benefits expense forecast to increase as a percentage of pre-loan loss Operating Income from **22.4%** to **24.8%**, as business growth returns to pre-COVID-19 run rate.

Figure 124 below provides further information on Pepper Money's employee benefits expenses between CY2018 and CY2021F.

Figure 124: Pepper Money's Pro Forma historical and forecast employee benefits expense and the employee benefits expense as a percentage of pre-loan loss Operating Income – CY2018 to CY2021F (A$ million)

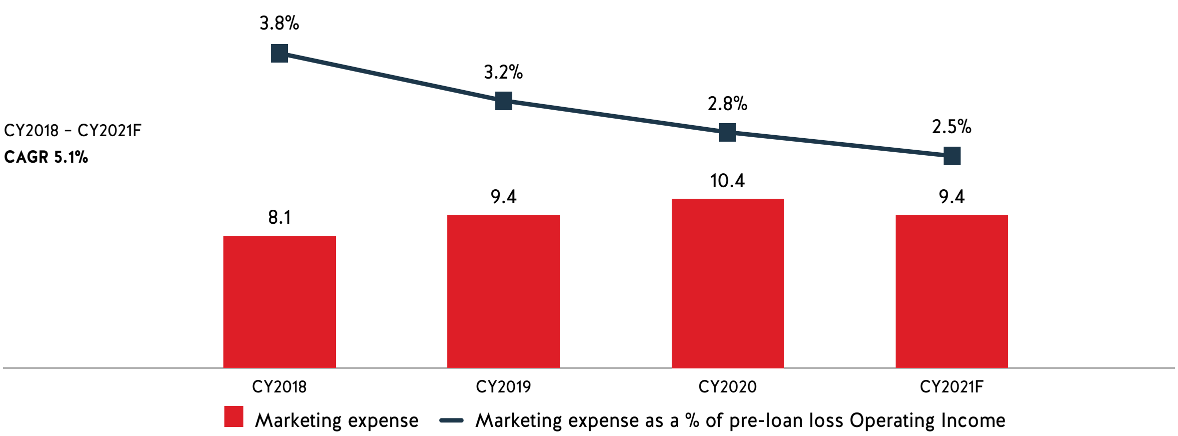


4.7.3.2 Marketing expense

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Increased from **$8.1 million** to **$9.4 million**, representing an increase of **15.5%**, due to: • new sponsorship initiatives; and • investment in digital initiatives to support new customer growth. Marketing expense reduced as a percentage of pre-loan loss Operating Income from **3.8%** to **3.2%**, reflecting the continued scaling of the business.	Increase from **$9.4 million** to **$10.4 million**, representing an increase of **11.2%**, due to: • new brand awareness and "Real Life" campaign ahead of Pepper Money's 21st anniversary; and • increase in spend in 2H CY2020 to support origination growth. Marketing expense decreased as a percentage of pre-loan loss Operating Income from **3.2%** to **2.8%**.	Forecast to decrease from **$10.4 million** to **$9.4 million**, representing a decrease of **(9.7%)**, due to: • increased marketing spend in 2H CY2020 to support origination growth. Marketing expense forecasted to decrease as a percentage of pre-loan loss Operating Income from **2.8%** to **2.5%**.

Figure 125 below provides further information on Pepper Money's marketing expense between CY2018 and CY2021F.

Figure 125: Pepper Money's Pro Forma historical and forecast marketing expense and the marketing expense as a percentage of pre-loan loss Operating Income – CY2018 to CY2021F (A$ million)



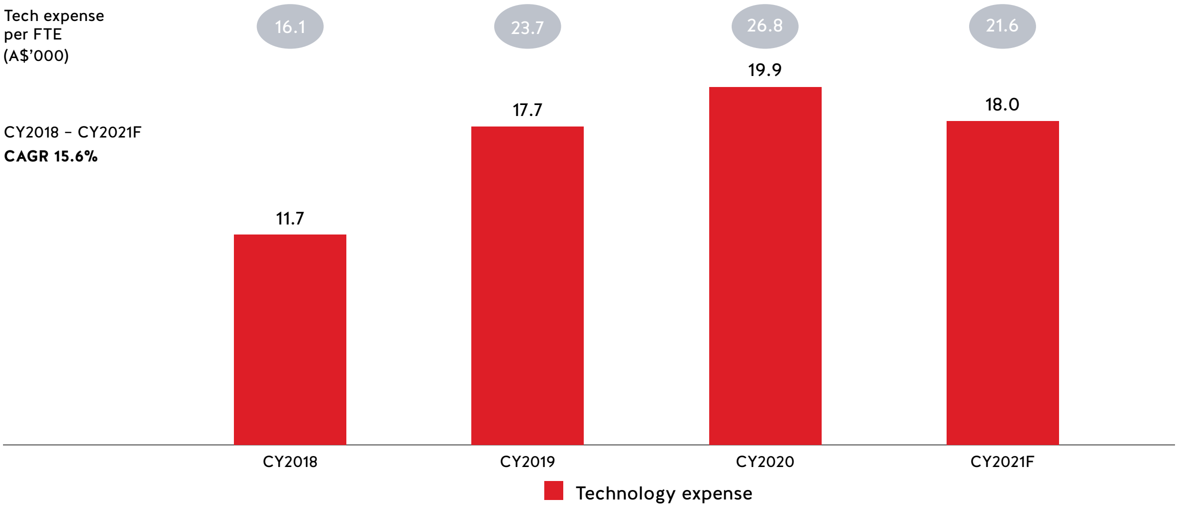
4.7.3.3 Technology expense

Technology is a core competency of Pepper Money. The business continues to seek new and innovative ways to deploy technology to better support customers, Distribution Partners and support increases in business scale and efficiencies. In CY2020, a review of the useful life was undertaken, and Capital Expenditure now reflects a shortened expected life, which is more in line with the change in the pace of technology.

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Increased from **$11.7 million** to **$17.7 million**, representing an increase of **52.0%**, due to: • continued investment in core platforms as part of the ongoing capital expenditure plan; and • continued investment in data and analytics to support growth objectives and trajectory. Technology expense increased as a percentage of pre-loan loss Operating Income from **5.4%** to **6.1%** as Pepper Money continued to invest in the technology platform.	Increased from **$17.7 million** to **$19.9 million**, representing an increase of **12.2%**, due to: • increases in software licence fees between CY2019 and CY2020 that support in-house purpose built platforms; and • increases in IT infrastructure, security, data and maintenance and support expenses from CY2019 to CY2020 as a result of considerable prior investments reaching steady state. Technology expense reduced as a percentage of pre-loan loss Operating Income from **6.1%** to **5.3%**, largely reflecting the operational efficiency and effectiveness achieved through significant capital programs largely completed in CY2019.	Forecast to decrease from **$19.9 million** to **$18.0 million**, representing a decrease of **9.4%**, due to: • underlying benefits (software) in total cost of ownership driven by completion of key projects (eg. collection management systems); and • software license cost to support in-house purpose built platforms. Technology expense forecasted to decrease as a percentage of pre-loan loss Operating Income from **5.3%** to **4.8%**, reflecting efficiencies and economies from scale.

Figure 126 below provides further information on Pepper Money's technology expense between CY2018 and CY2021F.

Figure 126: Pepper Money's Pro Forma historical and forecast technology expense and the technology expense per FTE – CY2018 to CY2021F (A$ million)



4.7.3.4 General and administration expenses

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Increased from **$14.0 million** to **$18.2 million**, representing an increase of **30.2%**, due to: • strategic procurement review leading to rationalisation and efficiency, offset by: – growth in operations and support associated with growth in the Mortgages and Asset Finance business; and – legal contingency costs.	Increased from **$18.2 million** to **$19.5 million**, representing an increase of **6.2%**, due to: • reductions in discretionary costs such as travel and entertainment, offset by: – increases in intercompany charges and professional expenses related to Pepper Money's expected IPO in CY2020 which was put on hold at the start of COVID-19; and – incremental expenses associated with the impact of COVID-19 including the setup of 'working from home' facilities.	Forecast to decrease from **$19.5 million** to **$12.2 million**, representing a decrease of **(37.6%)**, due to: • continuation of discretionary cost measures; and • reduction of one-off professional fees.

4.7.3.5 Occupancy expense

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Increased from **$1.5 million** to **$1.6 million**, representing an increase of **6.0%**, due to a new lease agreement for the Manilla office entered into in CY2019.	Remained relatively consistent, declining from **$1.6 million** to **$1.5 million**, representing a decrease of **2.7%**, due to stabilisation of occupancy expense within the cost base.	Forecast to increase from **$1.5 million** to **$1.6 million**, representing an increase of **1.9%**, roughly in line with inflationary increase in costs.

4.7.4 Depreciation and amortisation expense

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Increased from **$12.5 million** to **$24.8 million**, representing an increase of **98.0%**, due to increase in Right of Use Assets of **$4.1 million**, an impairment charge of **$7.0 million** reflecting through accelerated depreciation on economic life of assets, and depreciation associated with Pepper Money's Capital Expenditure during the period. Pepper Money's Capital Expenditure increased from **$18.1 million** to **$19.4 million**.	Decreased from **$24.8 million** to **$24.6 million**, representing a decrease of **0.9%**, reflecting an increase in depreciation associated with prior period Capital Expenditure. Pepper Money's Capital Expenditure decreased from **$19.4 million** to **$11.2 million** as major business initiatives successfully completed.	Forecast to decrease from **$24.6 million** to **$21.1 million**, representing a decrease of **14.3%**, reflecting the change in prior period Capital Expenditure. Pepper Money's Capital Expenditure decreased from **$11.2 million** to **$10.5 million**.

4.7.5 Corporate interest expense

Corporate interest expense includes the interest paid on the Corporate Debt Facility and interest expense recognised in respect of the lease liability associated with AASB 16.

CY2018 – CY2019	CY2019 – CY2020	CY2020 – CY2021F
Historical		Forecast
Decreased from **$4.7 million** to **$4.3 million**, representing a decrease of **(9.4%)**.	Increased from **$4.3 million** to **$4.8 million**, representing an increase of **12.6%**.	Decreased from **$4.8 million** to **$4.5 million**, representing a decrease of **(6.6%)**.

4.8 Forecast Financial Information

The basis of preparation for the CY2021F Forecast Financial Information is detailed in Section 4.2. This Section 4.8 includes the General Assumptions and the Directors' Best Estimate Assumptions specific to the Forecast Period.

4.8.1 General Assumptions

The following general assumptions are relevant to the Forecast Financial Information:

- there is no material change in the operating environments in which Pepper Money operates;
- there is no material change in the competitive environments in which Pepper Money operates;
- there is no material change in the legislative regimes (including taxation) and regulatory environment in which Pepper Money and its borrowers operate;
- there are no significant increases in Pepper Money's cost of funding;
- there is no significant deterioration in Pepper Money's access to funding;
- there are no material changes to Pepper Money's corporate and funding structure other than as set out in, or contemplated by, this Prospectus;
- there is no change in applicable Australian Accounting Standards and IFRS that would have a material impact on Pepper Money's accounting policies, financial reporting or disclosure requirements;
- there are no significant disruptions to the continuity of operations of Pepper Money and there are no other material changes in Pepper Money's business;
- there is no significant reduction in Pepper Money origination volumes due to the potential spread of infectious disease to a large number of people in Australia and New Zealand;
- there are no material acquisitions or disposals in Pepper Money's business;
- there is no significant deviation from current market expectations of the broader economic conditions relevant to the Australian and New Zealand sectors in which Pepper Money operates;
- there are no key movements in macroeconomic assumptions, including consumer sentiment, interest rates and unemployment levels;
- there are no further impacts to the global environment from health pandemics such as those from the onset of COVID-19;
- there is no change of key Management and Pepper Money will maintain the ongoing ability to recruit and retain required personnel;
- there is no material litigation that will arise or be settled to the benefit or detriment of Pepper Money other than that disclosed;
- there are no contingent liabilities that will arise or be realised to the detriment of Pepper Money;
- the Offer proceeds in accordance with the timetable set out in Section 1 of this Prospectus; and
- none of the risks set out in Section 5 occur,

(the **General Assumptions**).

4.8.2 Directors' Best Estimate Assumptions

The Forecast Financial Information has been prepared for the 12 months ending 31 December 2021 having regard to the current trading performance of Pepper Money up until the Prospectus Date.

The Forecast Financial Information is based on the General Assumptions and various specific assumptions set out in Section 4.7 (**Directors' Best Estimate Assumptions**). The Directors' Best Estimate Assumptions are a summary only and do not represent all factors that will affect Pepper Money's forecast financial performance. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the Directors' Best Estimate Assumptions will occur. The Directors' Best Estimate Assumptions should be read in conjunction with the basis of preparation of the Forecast Financial Information set out in Section 4.2, the General Assumptions set out in Section 4.8.1, sensitivities set out in Section 4.9 and the risk factors set out in Section 5.

4.9 Sensitivity analysis

The Forecast Financial Information is subject to the Directors' Best Estimate Assumptions underlying the Forecast Financial Information (refer to Sections 4.8.1 and 4.8.2 for further details).

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the forecasts, Table 31 provides a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the ranges shown. For the purposes of the analysis below, each sensitivity is presented in terms of the impact on CY2021F NPAT.

Table 31: Sensitivity Analysis on the Pro Forma Forecast NPAT – impact in CY2021F

Assumption	Notes	Increase/ decrease	Impact on CY2021F Pro Forma NPAT (A$ million)
Growth/reduction in monthly originations by asset class	1	+/- 10%	6.5
Increase/decrease in Net interest margin[6]	2	+/- 10bps	10.0
Increase/decrease in total losses as a % of lending AUM[7]	3	+/- 5bps	5.0
Increase/decrease in total operating expenses (including depreciation, amortisation and corporate interest)	4	+/- 5%	6.0

Notes:

1. Mortgage and Asset Finance Originations forecast to be $4.9 billion and $1.7 billion respectively in CY2021F. The sensitivity above illustrates the impact of monthly originations by asset class being 10% higher or lower.
2. Net interest margin forecast to be 2.51% in CY2021F. The sensitivity above illustrates the impact of the net interest margin being 10 basis points (i.e. 0.10%) higher or lower.
3. Total losses as a % of lending AUM forecast to be 0.31% in CY2021F. The sensitivity above illustrates the impact of total losses as a % of AUM being 5 basis points (i.e. 0.05%) higher or lower.
4. Total operating expenses (including depreciation, amortisation and corporate interest) forecast to be $160.4 million in CY2021F. The sensitivity above illustrates the impact of total operating expenses 5% higher or lower.

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to present the likely impact on the forecast. In practice, changes in variables may offset each other or be additive, and it is likely that Pepper Money Management would respond to any adverse change in one variable by seeking to minimise the net effect overall.

6. Reflects an increase/decrease in Net interest margin relative to the average AUM for CY2021.
7. Reflects an increase/decrease in AUM as at 31 December 2021.

4.10 Dividend policy

It is the current intention of the Directors to pay dividends subject to a number of factors including business conditions, available profits, the financial position of Pepper Money, future funding requirements, capital management initiatives, any contractual, legal or regulatory restrictions on the payment of dividends by Pepper Money or any other factors the Board may consider relevant.

It is the Board's current intention to target a payout ratio of between 30% and 40% of NPAT and to weight dividend payments towards the financial dividend in the ratio of approximately 40%/60% (interim/final). However, the actual payout ratio may vary between periods depending on the factors outlined above.

It is the current intention of the Board to pay dividends in respect of half years ending 30 June and final dividends in respect of full years ending 31 December each year. It is anticipated that interim dividends will be paid in October and final dividends will be paid in April following the relevant financial period. It is expected that all future dividends will be franked to the maximum extent possible.

Subject to all of the factors listed above, it is the Board's current intention to pay a final dividend for CY2021 in respect of the period from Completion to 31 December 2021 in April 2022. It is expected that the initial final dividend will be franked.

The Constitution authorises the Board, on any terms and at its discretion, to establish a Dividend Reinvestment Plan under which any Shareholder may elect that the dividends payable by Pepper Money be reinvested in whole or in part by a subscription for Shares at a price to be determined by the Board from time to time, in its absolute discretion. No dividend reinvestment plan has been assumed to be activated by Pepper Money during or in respect of CY2021F.

The ability of the Company to pay dividends is assessed on a Company basis and not a consolidated Group basis. The consolidated negative retained earnings is not indicative of Pepper Money's ability to pay future dividends. The Company's ability to pay future dividends is dependent on its standalone satisfaction of the solvency test of the Corporations Act and the sufficiency of profits and cash being available.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend. Investors who are not tax residents of Australia and who acquire Shares may be subject to Australian withholding or other taxes to their particular situations as well as any additional tax consequences resulting from purchasing, holding or disposing of the Shares.

5 Key risks

5.1 Introduction

This Section 5 describes some of the potential risks associated with an investment in Pepper Money.

Any investment in Pepper Money is subject to risk factors that are specific to an investment in the Company and also to others that are of a more general nature including general risks associated with investing in shares. Any or a combination of these risks may have a material adverse impact on Pepper Money's business, financial condition, operating and financial performance, growth and/or the value of its Shares. While Pepper Money seeks to manage risks to prevent adverse outcomes, many of these risks are outside the control of Pepper Money, its Directors and Management.

Section 5 does not purport to list every risk that may be associated with an investment in Shares now or in the future. Additional risks that Pepper Money is unaware of, or currently considers to be immaterial, also have the potential to have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth and/or the value of its Shares.

The selection of risks in this Section 5 has been based on an assessment of a combination of the likelihood of the risk occurring and the impact of the risk if it did occur. This assessment is based on the knowledge of the Directors and Management as at the date of the Prospectus. However, there is no guarantee or assurance that the importance of different risks will not change, or that other risks will not emerge.

Before deciding whether to invest in Pepper Money by applying for Shares, you should read the entire Prospectus and satisfy yourself that you have a sufficient understanding of these matters and should consider whether Shares are a suitable investment for you, having regard to your own investment objectives, financial circumstances and taxation position. If you do not understand any part of the Prospectus or are in any doubt as to whether to invest in Pepper Money, you should seek professional guidance from your stockbroker, accountant, lawyer, financial adviser or other independent and qualified professional adviser before deciding whether to invest.

5.2 Risks specific to an investment in Pepper Money

5.2.1 COVID-19 Pandemic

COVID-19 is an ongoing significant concern globally. Despite the recent commencement of the roll-out of vaccines, the pandemic continues to create volatility in financial markets and impact on economic activity worldwide. While unemployment rates in Australia have decreased since the peak of the pandemic, globally unemployment and hardship cases remain high.

State and Federal Governments in Australia and New Zealand announced economic support and stimulus packages aimed at reducing the extent of the economic impact of COVID-19, including JobKeeper and JobSeeker measures in Australia, which ended on 28 March 2021. The extent to which these packages may mitigate and/or defer the economic impact, including any credit losses Pepper Money may incur, is uncertain. There is also a risk that these packages (or any reforms and measures introduced as the packages are unwound) will create longer-term risks to the economy. This may also negatively impact customer sentiment towards Pepper Money and the financial services sector more broadly.

There is a risk, as a result of the COVID-19 pandemic, that Pepper Money could experience increased levels of borrower default and bad debts, a reduction in the demand for Pepper Money's products and services, a reduction in interest and fee income, a reduction in cash flow or a reduction or loss of access to funding or an increase in the cost of funding.

While difficult to predict the extent of the impact on Pepper Money, the negative impact of the pandemic on the demand for or availability of credit and funding, the impact on customer sentiment and confidence are all factors, either in isolation or in combination, that could materially adversely affect Pepper Money's operations and financial performance.

5.2.2 Risks associated with funding facilities

Pepper Money's funding platform currently comprises a mix of Warehouse Facilities, Term Securitisations, Whole Loan Sales programs, Corporate Debt Facilities and balance sheet cash, as described in Sections 9.5.3, 9.5.4 and 9.5.5. Pepper Money depends on continued access to these funding sources to fund its new originations and existing lending in Mortgage and Asset Finance receivables, as well as to support its ongoing business operations.

As detailed below, a loss of or adverse impact on one or more of Pepper Money's funding sources, without access to alternative funding sources, could have adverse consequences for Pepper Money, including increased funding costs, limiting Pepper Money's ability to originate new business, originate business on favourable terms, or to refinance maturing Warehouse Facilities or call Term Securitisations. These events and others could have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth, and/or the value of its Shares.

5.2.2.1 Occurrence of adverse events in relation to Warehouse Facilities and Term Securitisations

There is a risk that events such as stop origination or stop funding events, amortisation events, events of default or servicer or trust manager termination events under Pepper Money's Warehouse Facilities and Term Securitisations could have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth and/or the value of its Shares. Refer to Section 9.5.4 for information concerning such events, including examples of how such events may arise. Any such events can have a number of impacts, depending on the severity of the event, including:

- Pepper Money being unable to draw on the relevant Warehouse Facility to originate new loans (in some cases, until or unless the event is remedied or waived);
- residual income may be trapped in the funding vehicle and used to pay down senior ranking obligations until the event is remedied (limiting Pepper Money's access to that cash flow);
- interest rates charged on securities may increase (resulting in a reduction in residual income available to Pepper Money);
- funders may have the option to replace Pepper Money as servicer and/or trust manager (with consequences including loss of fee revenue, damage to customer relationships and/or loss of control of the funding vehicle);
- funders may enforce their security and sell the pool of loan assets held by the relevant funding vehicle; and/or
- customers being given notice of the funding vehicle's ownership of loan assets, which may have an adverse impact on Pepper Money's relationship with its customers and detrimentally affect its ongoing business.

5.2.2.2 Non-renewal of Warehouse Facilities and disruption to markets

There is a risk that Pepper Money is not able to renew one or more of its Warehouse Facilities when due for renewal, which is typically annually, or to do so on favourable terms. Pepper Money currently has $5.5 billion of Warehouse Facility funding limits (equivalent to ~70% of total Warehouse Facilities) due for renewal in the period from the date of this Prospectus to the end of CY2021. Failure to renew or refinance these facilities during CY2021 (or in the future) or to do so on favourable terms may have consequences including those described above, may impact Pepper Money's ability to achieve its CY2021F forecast, negatively impact Pepper Money's net interest margins and profitability, increase Pepper Money's costs, restrict Pepper Money's ability to repay its debt or to access capital for growth and limit its ability to execute its growth strategy.

In addition, Pepper Money relies on the ability to continue to source new funding arrangements at acceptable costs and terms (including new Warehouse Facilities, Term Securitisations and/or Whole Loan Sales) to grow its lending AUM and execute its growth strategy. There is a risk Pepper Money is not able to continue to source new funding arrangements or increase limits on existing Warehouse Facilities, which may impact Pepper Money's operating and financial performance.

An inability to renew existing Warehouse Facilities and/or to source new funding may impact Pepper Money's ability to exercise call options in relation to its Term Securitisations. Some investors in Pepper Money's Term Securitisations are likely to expect Pepper Money to exercise its call option in those transactions, and a failure to do so may detrimentally affect the market for future Term Securitisations, in turn further diminishing Pepper Money's ability to source future funding through Term Securitisations. For further information on call options, see "Tenor" in Table 39 in Section 9.5.4.4.

Debt wholesale capital markets experienced significant disruption during the GFC period from 2008 to 2010, and any future financial crisis or contraction in credit could have a material adverse effect on Pepper Money's business and could impact Pepper Money's ability to raise capital. In the event of a major liquidity disruption in the capital markets, it may be desirable for Pepper Money to extend or increase some or all of its short-term funding provided to Warehouse Facilities in preference to engaging in Term Securitisations. The cost of extending these facilities during a major liquidity disruption in the debt wholesale capital markets may be higher than the present cost of Pepper Money's short-term funding and the terms may require additional debt funding contribution from Pepper Money to support these facilities, which could negatively impact Pepper Money's operating and financial performance, its profitability, return on equity, ability to finance growth or could force Pepper Money to raise additional capital.

5.2.2.3 Corporate Debt Facility

Pepper Money has various financial and non-financial covenants under its Corporate Debt Facility which could limit its future financial flexibility (refer to Section 9.5.3 for further detail on the Corporate Debt Facility). Pepper Money estimates that its Pro Forma Corporate Debt as at 31 December 2020 was $50 million. Pepper Money may be unable to meet the covenants governing its Corporate Debt Facility (including as a result of deterioration of its operating results).

If a breach of covenant were to occur, the financers in respect of the Corporate Debt Facility may exercise their enforcement rights (as described in Section 9.5.3) and may require immediate repayment and cancellation of the Corporate Debt Facility unless they consent to an amendment or waiver of the covenants. There is no assurance that the financiers would grant a waiver or agree to an amendment, nor is there any assurance that Pepper Money would be able to make alternative borrowing arrangements, reduce its debt or raise additional equity to repay the Corporate Debt Facility.

Such events could limit Pepper Money's flexibility in planning for, or reacting to, downturns in its business and require Pepper Money to raise new capital, including the potential to issue New Shares. This could have a material adverse effect on Pepper Money's ability to fund its operations, including on its business, financial condition, operating and financial performance, growth and/or the value of its Shares.

5.2.2.4 Regulatory changes for funders

There is a risk that regulatory requirements imposed on the financiers that fund Pepper Money change. Any change in these requirements, such as a requirement on the financiers to hold more capital against exposures, consolidate securitised assets onto the balance sheet, or a prohibition on providing funds to certain Funding Vehicles, could impact the financiers' ability to provide Pepper Money with funding or result in funding on less favourable terms. This could have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth and/or the value of its Shares. If this risk eventuates, this would significantly limit Pepper Money's access to a number of its current financiers.

5.2.2.5 Capital and liquidity requirements

There is a risk that Pepper Money could be required to contribute additional Junior Securities to support the credit position of senior and mezzanine ranking securityholders in Pepper Money Warehouse Facilities and future Public Term Securitisations, which could impact Pepper Money's profitability, return on equity, ability to finance growth or could force Pepper Money to raise additional capital.

If the losses on loan assets in a funding vehicle are unable to be reimbursed from residual income, this will result in a reduction in the amount of Junior Securities available to absorb future losses.

While Pepper Money generally has no contractual obligation to subscribe for Junior Securities to support Warehouse Facilities, it may be appropriate to do so to support ongoing access to funding and distributions of income. Under Pepper Money's funding arrangements, consequences may occur if Pepper Money does not maintain a certain amount of Junior Securities (referred to as required credit support levels) in respect of its Warehouse Facilities, as further described in Section 9.5.4.4.

There is also a risk that regulators or Pepper Money or its financiers could implement additional requirements that would oblige the inclusion of, or increase in, required credit support levels. As a result of such requirements, Pepper Money may need to raise additional equity capital or seek additional funding to finance its subscription for further Junior Securities. This could have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth and/or the value of its Shares.

5.2.2.6 Performance of loan assets

Pepper Money generates income from, among other things, the ownership of residual income units and Junior Securities in its funding vehicles, where income is distributed net of credit losses on the underlying pool of loan assets. An increase in losses on the underlying loan assets caused by factors such as a failure of customers to pay amounts owed under the loan assets will reduce the income available to the funding vehicles to pay expenses, interest costs and, finally and last in order of priority, residual income available for distribution to Pepper Money as the residual income unitholder.

Pepper Money's rights as residual income unitholder to receive income from a funding vehicle is subordinated and subject to the rights to income of certain service providers, senior and mezzanine funders, including applications to repay funding in the event a Warehouse Facility is not extended or refinanced by its scheduled maturity, or if an amortisation event or an event of default occurs. Pepper Money's ability to receive this income as residual income unitholder is also subject to arrangements that in certain circumstances require that a Funding Vehicle's income be applied towards meeting payments due to holders of, or otherwise towards or in respect of, other securities (including to the trustee of the fSPV, as to which, see Section 9.5.4.4, Table 25). As a result, Pepper Money's income from Funding Vehicles will decrease as a result of credit losses experienced or if certain arrangements are in place or certain events are subsisting (refer to "residual income" in Section 9.5.5).

As described above, there is also a risk that loan assets transferred to or originated by a funding vehicle experience losses at a level which result in a loss in respect of the Junior Securities issued by those Funding Vehicles that are held by Pepper Money to that funding vehicle. In the case of funding vehicles which are Warehouse Facilities, this may also require the Company to subscribe for additional Junior Securities.

Accordingly, Pepper Money is exposed to the performance of the relevant portfolios of loan assets which are in turn affected by a range of events outside Pepper Money's control (and which may include the general deterioration of economic conditions).

5.2.3 Regulatory and licence compliance

As discussed in Section 2.2.1.4, Pepper ANZ operates within regulated markets that are subject to a range of legislative and compliance requirements. In both Australia and New Zealand (noting that Australia represents the substantial majority of Pepper ANZ's operations), Pepper ANZ must comply with statutory obligations in relation to, among other things, licensing, responsible lending, anti-money laundering, counter terrorism financing, privacy, customer identification, credit reporting, unfair contract terms and disclosures to customers and investors.

Australia

As set out in Section 2.6.1, Pepper Money's business activities in Australia are primarily regulated by ASIC under the *Corporations Act 2001* (Cth), ASIC Act, NCCP Act which incorporates the NCC. Pepper Money is also subject to other legislation, including, but not limited to, Privacy Act, AML/CTF Act, the *Competition and Consumer Act 2010* (Cth), and the *Privacy (Credit Reporting) Code 2014*. Under the NCCP Act, Pepper Money must comply with responsible lending, pre-contractual disclosure, collections and enforcement obligations and hardship practices. Pepper Money must also maintain an AML/CTF program and if it does not comply with these legislative requirements, it may be unable to recover fees, charges and interest or enforce its security and may be subject to civil or criminal penalties.

New Zealand

As set out in Section 2.6.2, Pepper ANZ operates in New Zealand as a provider of financial products and financial services and is therefore subject to regulatory oversight of the FMA and is regulated by a number of statutory instruments including the FMCA, FSPA, CCCFA, FTA and the semi-voluntary Responsible Lending Code.

Pepper Money's operations in New Zealand are not subject to the regulatory remit of the RBNZ under its current regulatory mandate. However, there is a risk that the RBNZ's regulatory mandate may change, in which case Pepper Money's operations in New Zealand may be subject to its oversight in the future. This would increase Pepper ANZ's compliance obligations.

Pepper ANZ's operations are subject to the regulatory oversight of NZ ComCom, specifically with respect to its lending activities and related operational and compliance practice and policies. Examples of relevant conduct that may draw the attention of NZ ComCom include irresponsible lending practices (for example, failing to make reasonable enquiries as to the borrower's needs and failing to disclose loan terms properly), unfair terms in loan agreements, conduct that is misleading or deceptive, and representations that are false, misleading or unsubstantiated.

Both jurisdictions

Unfair contract terms legislation in both Australia and New Zealand may impact Pepper ANZ's ability to enforce certain terms of customer contracts. There is a risk that Pepper ANZ's customer contracts may include terms which regulators consider are not reasonably necessary and which could cause detriment (whether financial or otherwise) to a party if they were to be relied on, and as a result that term may be declared void.

Failure to comply with (or comply with developing interpretations of) applicable laws, regulations, codes of conduct and standards of good practice in Australia and/or New Zealand may result in legal or regulatory sanctions. Pepper ANZ must maintain robust internal systems, processes and controls to ensure that it and its employees and representatives comply with legal obligations. Failure to comply with these obligations (including technical breaches, such as minor errors in initial disclosure), may present a risk that Group is subject to civil or criminal penalties, be unable to recover fees, charges or interest, or may have to waive existing loan balances or refund funds to customers under loan contracts. Non-compliance by Pepper ANZ could also result in a negative impact on customers and other stakeholders' trust in Pepper ANZ, or class actions from customers, or result in Pepper Money incurring fines, penalties, the payment of compensation, remediation orders, the cancellation or suspension of Pepper ANZ's ability to carry on certain activities or businesses.

Changes to the licensing regimes, which Pepper is subject to, may result in revocation of existing licences, an inability to renew or receive necessary licences, or the imposition of capital requirements to Non-Bank Lenders, each of which could have a material adverse effect on Pepper Money's ability to carry out its business in its current form.

Pepper ANZ may also be adversely affected by the impact of laws and regulations on the enforceability of its loans or related security. For example, changes to, or to the interpretation of, the law of penalties could result in contractual stipulations such as late payment, dishonour and over-limit fees being unenforceable or a failure of Pepper Money to correctly register security interests on relevant security interest registers, within the relevant timeframes or at all, could result in those security interests being unenforceable. The changing regulatory landscape, including the increased scrutiny of industry participants' compliance with regulatory requirements and recent influx of legislation or proposed legislation relating to enforceable codes of conduct and breach reporting for credit and financial services licensees may also require industry participants to implement more stringent compliance processes and procedures. This could have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth, and/or the value of its Shares.

5.2.3.1 Responsible lending

Australia

Responsible lending requires lenders of Code regulated loans to:

- make reasonable inquiries into a borrower's situation; and
- take reasonable steps to verify that financial situation.

Responsible lending requirements, as set out in the NCCP Act, are imprecise, open to interpretation and are 'scalable' (using ASIC's language). ASIC or AFCA may form the view that Pepper Money's responsible lending processes, either generally or in relation to a particular consumer, are insufficient. If ASIC or AFCA were concerned with Pepper Money's current or historical approach to responsible lending, especially income or expense verification, Pepper Money may need to change its current policies and processes and undertake remediation of customers that ASIC or AFCA view as potentially at risk of loss or disadvantage as a result of Pepper Money's processes.

New Zealand

Regulatory developments in New Zealand are likely to require changes to Pepper ANZ's processes, procedures and controls, which could increase costs and negatively impact the performance of Pepper ANZ's portfolio and reputation, its future origination activities, customer conversion rates and its ability to maintain its current funding or attract new funding. Recent and planned changes to Pepper Money's processes and technology platforms are designed to mitigate the risk of increases in costs or a reduction in loan volumes, but there is no assurance that these changes will be successful which could have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth, and/or the value of its Shares.

5.2.3.2 Recent and future regulatory changes

While Pepper Money keeps abreast of potential and actual changes to the legislative and regulatory environment, Pepper Money cannot predict with certainty the legislative or regulatory changes that may occur in the future. It is equally difficult to predict the impact of future legislative or regulatory change on Pepper Money's business, particularly in circumstances where the financial services industry is under increased scrutiny following the Financial Services Royal Commission in Australia and similarly focused inquiries in New Zealand.

Additional and increasingly complex new regulation may increase the cost of compliance (and the risk of non-compliance) or compel Pepper Money to prioritise the implementation of systems or processes for compliance reasons. This could delay or impede the implementation of other customer oriented or revenue generating initiatives.

Legislative initiatives and regulatory reviews in Australia and New Zealand which have either recently been implemented or are in the process of being introduced which may impact Pepper ANZ include:

Australia

- **Powers of regulators**: An expansion in the power of regulators that may be exercised in a manner which is adverse to Pepper Money.
- **Design and distribution obligations**: Pepper Money may be required to make changes to its products, including by removing or modifying some products as a result of design and distribution obligations.
- **Mortgage broker best interest duty**: From 1 January 2021, a best interests duty for mortgage brokers came into effect whereby mortgage brokers are legislated to have a duty to act in the best interest of their customers. There are also reforms to mortgage broker remuneration, including banning campaign and volume-based commissions and payments. The changes proposed as part of the review place some new restrictions on how Pepper Money is able to incentivise and remunerate these Distribution Partners. In addition, a review is proposed in 2022 into the implications for consumer outcomes and competition of moving to a borrower pays remuneration structure for mortgage broking.

New Zealand

- **Consumer credit law**: Following the New Zealand Government's review of consumer credit law the CCCFA was amended. The changes are being progressively implemented, with the remaining changes scheduled to come into force on 1 October 2021. The amendments increase safeguards for retail borrowers, with relevant matters affecting Pepper ANZ including setting of fees, minimum requirements for enquiries into borrowers' ability to repay, restrictions on the content of advertisements, enhanced disclosure and record-keeping obligations, and an enhanced enforcement regime providing a broader range of tools to the regulator and tougher penalties on lenders that breach the CCCFA. These amendments will likely increase costs associated with reviews of borrowers' circumstances, and legal costs to ensure loan contracts comply with the amendments (particularly with respect to fees) and enhanced disclosure and record keeping obligations.
- **FMCA Bill**: The New Zealand Government has announced that a new statutory conduct regime will apply to banks, insurers and non-bank deposit takers in New Zealand, including a requirement to be licensed by the FMA for their conduct. Although Pepper Money does not currently fit within any of these categories, it is possible that the scope of this conduct regime could be expanded in the future to include lenders who are not non-bank deposit takers.
- **Unfair contract terms**: The FTA was amended in 2015 to provide a regime prohibiting the inclusion of 'unfair' terms in standard form consumer contracts. As Pepper ANZ's consumer loan agreements are based on standard forms, the unfair contracts regime will apply and accordingly there is a risk that terms in the contracts may be asserted by the regulator to be 'unfair'. The legal implication of a term

being declared by a court to be 'unfair' may expose Pepper Money if the term is unenforceable, it may result in legal costs in handling any claim, civil damages if found in breach and reputational harm if an adverse outcome was reached. New Zealand may introduce similar recommendations arising out of the Financial Services Royal Commission in Australia to effectively align New Zealand laws and required practices with those in Australia over time. In December 2019, the Fair Trading Amendment Bill was introduced to Parliament. The Bill includes various additional restrictions on actions in trade, including a prohibition on unconscionable conduct in trade and an extension of limitations on 'unfair' contract terms to cover 'small trade contracts' (currently defined as a contract where the value of the trading relationship does not exceed NZ$250,000 per annum). The Bill is currently going through the Select Committee process.

5.2.4 Macroeconomic conditions

Macroeconomic factors such as unemployment, underemployment, interest rates, lack of income growth, the amount of customer spending, business investment, government spending, government policy, the volatility and strength of the global and Australian and New Zealand capital markets, currency value, exchange rates and information (particularly of essential items) all affect the business and economic environment and, ultimately, the volume and performance of Pepper Money's business.

Given the majority of Pepper Money's business is in Australia, it is particularly exposed to changes in Australian macroeconomic conditions. A material downturn in the Australian economy, sustained increases in inflation or shocks to the financial system could result in a material increase in unemployment, a return to higher interest rates, a general reduction in demand for credit at a domestic or international level or a reduction in a borrower's ability to pay their debts.

These factors could impact Pepper Money in various ways, including:

- material increases in unemployment or higher interest rates could result in increased loan default rates, arrears and credit losses, reducing Pepper Money's AUM, ongoing earnings and/or access to capital;
- an economic downturn could reduce consumer's demand for credit, reducing growth in originations and AUM and adversely impact earnings; and
- a sustained downturn in the economy may reduce funders' appetite to extend credit to Pepper Money (including in the circumstances described in Section 5.2.2.2), or reduce their appetite to fund on favourable terms which could impact Pepper Money's ability to fund originations, extend existing Warehouse Facilities or call Term Securitisations.

5.2.5 A downturn in the Australian and New Zealand housing and asset finance markets

In addition to a general downturn in macroeconomic factors, a material deterioration in the Australian and/or New Zealand housing markets which could be triggered by various factors including reduced borrower sentiment, tightening in lending standards, rising interest rates, depressed asset values, rising unemployment and increased repayments for interest only loans and changes to government policy would have a material negative impact on Pepper Money's business.

Household stress and a decrease in consumer confidence, as a result of falling Australian or New Zealand housing prices or a reduced velocity of housing stock turnover, could materially and negatively affect Pepper Money's portfolio performance or origination of future loans. A decline in property may result in the value of the underlying security supporting Pepper Money's assets. Accordingly, a deterioration in the Australian, and to a lesser extent New Zealand, housing markets could have a significant reductive impact on the level of Pepper Money's loan origination and an increase in customer default.

A deterioration in the Asset Finance market, triggered by reduced borrower sentiment, a tightening of lending standards, rising interest rates and other macroeconomic forces, may have a negative impact on Pepper Money's Asset Finance operating and financial performance.

5.2.6 Customer default and portfolio performance

Pepper Money is exposed to the risk that its customers do not meet their financial obligations (e.g. their obligation to repay loans) or become insolvent. Customer default is mostly caused by a decrease in the customer's available income or an increase in the customer's payment obligations or living expenses (including increased interest rates). Customer defaults may also increase as a result of adverse business or economic conditions. A change in customer circumstance or a failure by Pepper Money to adequately assess and manage credit risk may result in credit losses, decreased operating cash flows, significant credit impairment expenses, increased funding costs, and reduced access to funding. There is also a risk that pools of loans in Pepper Money's Warehouse Facilities or Term Securitisations trusts may experience losses at a level which results in a loss on the Junior Securities contributed by Pepper Money to such arrangements. Losses on pools of loans above certain levels may also result in Pepper Money's appointment as manager or servicer of such transactions of those arrangements being terminated, resulting in a loss of the income Pepper Money receives from providing these services.

5.2.7 Imprecise prediction of the rate of prepayment of loans

There is a risk that the conditional prepayment rate ("**CPR**") of Pepper Money's existing loan portfolio increases as a result of lower interest rates, increased competition in the lending market, increased willingness of Prime lenders to accept higher credit risk and improvements in borrower credit ratings. As Pepper Money's income forecasts are dependent on accurately estimating the CPR, there is a risk that the CPR is higher than Management forecasts which, if not offset by additional originations, could adversely impact Pepper Money's profitability. There is also a risk that an inadequate credit assessment or failures in the credit assessment process could result in Pepper Money unintentionally accepting additional credit risk above its expectations. This could arise due to a technical failure or due to a failure of Pepper Money employees (for example, failure to follow defined processes) and could result in Pepper Money originating loans to customers who do not have the capacity to repay the loan. This could result in a breach of its responsible lending obligations or originating loans in a way that does not effectively balance risk and return through its loan book. In addition, there is a risk that the repayment rates of Pepper Money's servicing portfolios are higher than expected.

5.2.8 Reliance on data models

Pepper Money relies extensively on models in managing many aspects of its business, including stress testing, forecasting, cash flow, customer selection, credit and other risk management, pricing and collections management. Models may prove in practice to be less predictive than Pepper Money expects for a variety of reasons. Inaccuracies in assumptions, including those resulting from matters that are inherently difficult to predict are beyond Pepper Money's control (for example, macroeconomic conditions and their impact on Distribution Partners and customer behaviours) or due to system or control errors could result in material errors or inaccuracies in Pepper Money's models and could cause Pepper Money to make wrong or sub-optimal decisions in managing Pepper Money's business. An aggregation of wrong or sub-optimal decisions (in particular if it is resulting from a systemic inaccuracy or misinterpretation of the data model) could have a significant impact on Pepper Money's performance in the medium term.

5.2.9 Information technology and data security

Pepper Money is dependent on the operation of its technology platform in order to accurately assess customers, provide reliable services and accurate and timely reporting for its customers. Any disruption to Pepper Money's technology platform or security breaches and data protection issues could adversely affect Pepper Money's business, operations or financial performance.

5.2.9.1 Information technology

Any systemic failure or sustained disruption to the effective operation of Pepper Money's technology platform or other events resulting from system failure, cyber-attacks and viruses could severely damage Pepper Money's reputation and its ability to generate new business or retain existing business, directly impair Pepper Money's operations and customer service levels or require increased expenditure on technology or generally across the business. Pepper Money's technology or product offering may also become obsolete or outdated through the investment of its peers in superior technology or product offerings, increased access to data through the introduction of positive credit reporting reforms or general market developments. This could require substantial investment to update or improve current technology platforms and product offerings.

In addition, Pepper Money's operations are dependent on access to third party technology and data providers to undertake informed, accurate and timely assessments of potential applicants. If disruption was to occur, Pepper Money could face significant costs and/or business disruption.

5.2.9.2 Exposure to security breaches and data protection issues

Pepper Money collects, processes and stores, through the ordinary course of its business, a wide range of confidential personal data and information on applicants. Despite seeking to maximise the protection of customer and company data, the measures Pepper Money takes to protect such information and data may be insufficient to prevent security breaches from arising, or other unauthorised access or disclosure of such information and data. Such security breaches may involve unauthorised access to Pepper Money's networks, systems and databases, including with respect to its service offerings and technology platforms, and the deployment of viruses or other malicious software designed to create system and service disruptions, exposing financial, proprietary and personal information.

Any data security breaches or Pepper Money's failure to protect private customer information could result in a significant disruption to Pepper Money's systems, reputational damage, loss of system integrity and breaches of Pepper Money's obligations under applicable laws. Further, laws relating to data privacy are evolving across all jurisdictions and any changes to standards may adversely impact Pepper Money's current systems and operating procedures.

5.2.10 Protection of intellectual property

Pepper Money has developed technology-enabled methods and capabilities to support its mortgage distribution, including for example Pepper Resolve, the Pepper Product Selector and the Cascading Credit Model. The commercial value of Pepper Money's intellectual property is dependent in part on operational procedures to maintain confidentiality and legal protections provided by a combination of copyright, trade secrecy laws, confidentiality obligations on employees and third parties and other intellectual property rights. There is a risk that Pepper Money's intellectual property may be compromised in a number of ways. There is also a risk that Pepper Money may inadvertently fail to protect its intellectual property sufficiently or infringe the intellectual property rights of third parties. Any such breaches could result in an inability to use the intellectual property in question, erode Pepper Money's competitive position and involve significant expense.

5.2.11 Risk management

Pepper Money is subject to business continuity risk and operational risk, including financial, accounting, data processing and other operating systems and facilities and risks arising from human error and fraud by internal or external parties. There may also be existing risks, or risks that develop in the future, that Pepper Money has not appropriately anticipated, identified or mitigated including when processes are changed, or new products and services are introduced. If Pepper Money's risk management systems and frameworks do not effectively identify and control these risks, or if Pepper Money's insurance does not adequately cover these risks, Pepper Money could suffer unexpected losses. Pepper Money regularly reviews and actively enforces its risk management policies to mitigate this risk.

5.2.12 Business continuity and operational matters

Pepper Money's business is dependent on its ability to process a large number of transactions and functions on a daily basis. Business critical financial, accounting, data processing and other operating systems and facilities may fail or become partially disabled as a result of events that are wholly or partly outside Pepper Money's control.

Pepper Money is also exposed to the risk of loss resulting from product complexity and pricing risk, customer sustainability and servicing risk, incorrect evaluation, record or accounting for transactions, human error, breaches of Pepper Money's internal policies and procedures, breaches of security, theft and fraud and improper business practices.

Pepper Money maintains a captive shared service centre in Manila, the Philippines. This centre is responsible for a part of the Mortgage and Asset Finance servicing as well as operational and business support for Pepper Money's business. There is a risk that the offshore service centre may become uncommercial and not fit-for-purpose should there be a contraction in transaction volumes, rise in employment costs, or any adverse business conditions. Additionally, operations in Manila are subject to specific regulatory, geopolitical and environmental risks typically associated with operations in the Philippines.

5.2.13 Fraud events

Pepper Money is exposed to the risk of fraudulent behaviours, including circumstances where individual borrowers, brokers or other parties, conspire to misrepresent their ability to service the loans, overstate the value of their collateral, or undertake identity theft in order to obtain loans. Pepper Money relies on its internal policies and procedures to identify and minimise the impact of fraud. There can be no assurance that the measures taken by Pepper Money will detect and prevent the incidence of fraud. Failure of these internal controls could result in damage to Pepper Money's reputation with funding providers, or impact Pepper Money's ability to attract new customers.

In addition, Pepper Money also faces the possibility of internal fraud due to authorised or unauthorised collaboration between employees or with third parties, failure to separate certain key functions, actions carried out by employees or with third parties or other incidences that may give rise to internal fraud.

5.2.14 Execution of Strategy: Growth initiatives

There is no guarantee that any of Pepper Money's growth strategies, including extension into New Zealand home loans, Australian small balance CRE loans, novated leases, strategic partnerships, or other transactions or initiatives will be successfully implemented or integrated from a cultural, operational or systems perspective, perform in line with expected growth, margins and credit losses, deliver expected returns and market share gains or ultimately be profitable or not impact negatively on existing businesses or operations. There is also a risk that the growth strategies may be subject to unexpected delays and additional implementation costs.

5.2.15 Relationship with Pepper Global and rights under the Trademark Licence Agreement and Separation Deed

Pepper Money will have a range of agreements in place with subsidiary companies of Pepper Global, including the Trademark Licence Agreement, Transitional Services Agreement and Separation Deed (the terms of which are summarised in Section 9.5.1).

To the extent the above-mentioned agreements with Pepper Global do not operate as contemplated, they could adversely impact on Pepper Money's operations and financial performance in the short or medium to long term if Pepper Money was unable to resolve the issue underpinning the impact.

5.2.15.1 Trademark Licence Agreement

Pepper Money does not own the "Pepper" trademarks (including the Pepper logo or the Pepper Money trademark) and relies on a licence from Pepper Global in order to continue to use those trademarks. The Trademark Agreement (refer to Section 9.5.1.4) covers Pepper Money's right to use certain Pepper trademarks for an initial term of ten years with automatic renewal for two successive five-year terms subject to:

- automatic expiry at the end of the initial term and any renewal term if a competitor of Pepper Global, KKR or Pepper Money acquires control of Pepper Money;
- termination for convenience by Pepper Global at the end of the initial term on two years' prior notice; and
- termination for convenience by Pepper Money at any time on one years' prior notice.

During the term of the Trademark Agreement, Pepper Global is not permitted to use the "Pepper" trademarks in Australia and New Zealand other than in relation to defined permitted activities (being non-consumer facing activities, funding activities and acquisition activities. If Pepper Money breaches certain material terms of the Trademark Agreement (including use outside the permitted scope of the licence or failure to pay the licence fees), and the breach is not rectified, Pepper Money will lose its right to use the Pepper trademarks.

Pepper Money relies on the Pepper trademarks to, among other things, attract and retain Distribution Partners, customers, and attract funding partners. There is the risk that if Pepper Global operates in a manner that negatively affects the actual or perceived quality of the Pepper brand internationally, for example, if Pepper Global's Term Securitisation transactions perform materially worse than expected (for example, through materially higher than expected credit losses), that Pepper Money's brand may suffer reputational damage for further funding issues. This could have a material adverse effect on Pepper Money's business, financial condition, operating and financial performance, growth and/or the value of its Shares.

5.2.15.2 Separation Deed

Before lodgement of the Prospectus with ASIC, Pepper ANZ was reorganised into a separate corporate group within the broader Pepper Global Group as part of a wider reorganisation of companies ultimately owned by Pepper Global TopCo (the **Restructure**). The separation principles and certain implementation matters relating to the Restructure were set out in the Separation Deed which is summarised in Section 9.5.1.1. There is a risk that the Restructure was not accurately completed and assets and liabilities relating to Pepper ANZ are held by the Pepper Global and vice versa. If a material asset sits outside Pepper ANZ or a material liability of Pepper Money is incurred by Pepper ANZ, it may impact on Pepper Money's business. Pepper Global agrees to indemnify Pepper Money in relation to any failure to complete any part of the Restructure and certain other matters including failure to discharge any liability or tax. Pepper Money would need to bring a claim under this indemnity to address any loss suffered. Pepper Money has no reason to doubt Pepper Global's creditworthiness at the date of this Prospectus, however, Pepper Money's ability to recover loss as a result of a claim under the indemnity is limited to Pepper Global's ability to meet the liability for the claim. If Pepper Global is unable to the pay the amount owing under the claim, Pepper Money, may suffer significant loss which could negatively impact on its financial or operating performance.

5.2.16 Reputational matters

Pepper Money manages risks relating to legal and regulatory requirements, responsible lending and sales practices including hawking, potential conflicts of interest, privacy laws and ethical issues, among other considerations, which may cause harm to its reputation. Reputational damage may also arise from inadequate or deteriorating service, improper conduct or adverse media coverage.

Any adverse perception of Pepper Money's reputation or image on the part of investors, customers, counterparties, rating agencies or regulators may reduce demand for Pepper Money's products and services and consequently would result in a negative impact on Pepper Money's financial performance in the short to medium term.

5.2.17 Reliance on Distribution Partners including mortgage brokers and other introducers

The success of Pepper Money's business and its ability to grow relies on its ability to retain its existing key distribution relationships and its ability to continue to attract Distribution Partners (including mortgage brokers, White Label partners and direct channels, as well as auto brokers, commercial brokers and car dealers) on acceptable terms. If Pepper Money is unable to maintain its existing relationships, attract new Distribution Partners or is ultimately held responsible for actions of its Distribution Partners, it could result in a decrease in loan originations, future loss of income from existing relationships and increased compliance/remediation costs.

5.2.18 Reliance on quality personnel

Pepper Money relies on its ability to attract and retain experienced and high-performing employees with specialist skills (including a highly skilled Management team, business development managers, credit relationship managers, treasury and other operational staff) to operate successfully. The loss of key personnel, sustained underperformance by key personnel, reputational issues affecting key personnel or an inability to recruit or retain personnel may impact Pepper Money's ability to develop and implement its growth strategies. Failure to appropriately recruit and retain employees may adversely affect Pepper Money's ability to develop and implement its business strategies, lead to Distribution Partner churn, and materially increase in the costs of obtaining experienced and high-performing employees.

5.2.19 Change in credit and servicer ratings

Credit rating agencies may withdraw, revise or suspend the formal credit ratings for any rated Pepper Money transaction. In addition, funders may have informal servicer ratings for Pepper Money which they determine to be appropriate based on analysis of its business, operations and credit quality. This can affect the confidence of investors in Pepper Money's existing funding arrangements, including the size of facilities offered to Pepper Money, the appropriate funding cost, as well as Pepper Money's ability to attract such investors for future Warehouse Facilities and Term Securitisation. Further, the separation from Pepper Global may negatively impact Pepper Money's existing credit ratings, or informal servicer rating, which could impact existing funders' appetite to provide Warehouse Facilities, including potentially reducing the size of their exposure to Pepper Money. This could negatively affect Pepper Money's growth, volume of business and overall financial performance.

The success of Pepper Money as a loan servicing business depends in part on its loan servicer ratings. Pepper Money's loan servicer ratings may be withdrawn, revised or suspended by the relevant rating agencies. This could result in a lower rate of originations and overall demand for Pepper Monday's services and products which would have a material impact on Pepper Money's financial performance.

5.2.20 Whole Loan Sales program

The Pepper Money Whole Loan Sales program provides a regular, alternative funding stream to the lending business and involves the purchase of mortgage pools by domestic banks and fund investors. Pepper Money generates income through servicing these mortgage books. There is a risk that, in any given year, Pepper Money will not sell mortgage loan pools to a counterparty and this may result in less funding sources being available for originations in any given year.

5.2.21 Contracts and agreements

There are risks associated with Pepper Money's existing and future contracts and agreements, including those related to its Distribution Partners, other strategic partnerships, previous acquisitions, information technology contracts, servicing contracts and property leases. Pepper Money's existing contracts may also be terminated, lost or impaired, or renewed on less favourable terms. Some of Pepper Money's contracts can be terminated without cause or on short notice (depending on the termination event or circumstances) or contain change of control provisions which may be triggered by the Offer. In the event that consent to the change of control is not obtained from the relevant counterparty, there is a risk that the contract could be terminated. There is also a risk that third parties do not perform adequately, terminate their relationship with Pepper Money, become insolvent, are acquired by a competitor or that losses may be incurred by the counterparty and others which are the responsibility of Pepper Money. Where a counterparty fails to satisfy the terms of their agreement, Pepper Money may be required to seek remedy from the relevant counterparty. There is a risk that a sufficient remedy may not be granted or available from the relevant counterparty (for the example certain remedies may be limited as to time or as to amount).

Additionally, Pepper Money is subject to a number of ongoing obligations, including obligations to make certain payments, and is subject to various levels of liability under indemnity provisions in a number of its contracts and agreements. There is a risk that Pepper Money will be unable to meet its existing payment obligations or unable to adequately fund its exposure to damages or compensation owed to an indemnified party.

A loss of a material contract may result in a loss of revenue and exposure to damages or compensation may result in unexpected costs for Pepper Money.

5.2.22 Liabilities in relation to third-party servicing or management services

There is also a risk that Pepper Money incurs liabilities under indemnities that it provides to the third-party owners of the loan portfolios that its services. Failure to adhere to the terms of the servicing contracts could result in Pepper Money incurring liabilities under these contracts. Incurring such liabilities could adversely impact Pepper Money's profitability, gearing or ability to grow.

5.2.23 Risk of litigation, claims or disputes

Pepper Money may be subject to litigation and other claims and disputes in the course of its business, including employment disputes, contractual disputes, indemnity claims, occupational health and safety claims, class actions, action in relation to the breach of an Australian Financial Services Licence or New Zealand Financial Service Provider Licence, actions brought by other third parties, or criminal or civil proceedings. Pepper Money's business activities are subject to laws and regulations as set out in Section 2.6. Pepper Money could face civil penalty proceedings, other legal or regulatory sanctions or reputational damage as a result of any failure to comply with applicable laws, regulations, or codes of conduct. Adverse findings against Pepper Money in such litigation, claims or disputes may adversely affect Pepper Money's financial position.

5.2.24 ANZ HoldCo will retain a stake in Pepper Money post listing

Following Completion of the Offer, Pepper Group ANZ HoldCo Limited will hold Escrowed Shares constituting 60.6% of the Shares on issue, which will reduce the size of the free float of Shares and may also impact on liquidity. In addition, under the Relationship Deed, Pepper ANZ HoldCo will have the right to nominate one Director to the Board of the Company so long as Pepper ANZ HoldCo's shareholding represents between 10% and 20% of the Shares on issue, two Directors to the Board, so long as Pepper ANZ HoldCo's shareholding is between 20% and 40% of the Shares on issue, and three Directors to the Board if the total number of Directors is more than 8, so long as Pepper ANZ HoldCo's shareholding represents greater than 40% of the Shares on issue.

Pepper ANZ HoldCo has entered into voluntary escrow arrangements in relation to Escrowed Shares. A summary of the escrow arrangements in relation to the Offer is set out in Section 9.5.7. The absence of any sale of Escrowed Shares by Pepper ANZ HoldCo during the relevant escrow period may impact liquidity in the market for the Shares.

Following the expiration of the escrow period (or the application of limited exceptions), Shares held by Pepper ANZ HoldCo will be able to be freely traded on the ASX. A significant sale of Shares by Pepper ANZ HoldCo,or the perception that such sale might occur, could impact the Share price. Alternatively, the absence of any sale of Shares by Pepper ANZ HoldCo in the period following the escrow period may impact liquidity in the market for the Shares. These factors combined could affect the prevailing market price at which Shareholders are able to sell their Shares.

Additionally, Pepper ANZ HoldCo (and its controlling entities) will continue to be able to exert material influence including in relation to the election of Directors and the potential outcome of matters submitted to the vote of Security Holders of Pepper Money. There is also a risk that the interests of Pepper ANZ HoldCo and the interests of investors who acquire Securities under the Offer are not aligned. This risk is somewhat mitigated by the fact that Pepper Money has four Independent Non-Executive Directors who form a majority of the Board of Directors.

5.2.25 Uncertainty of forecasts and other forward-looking information

The forward-looking statements, opinions and estimates provided in this Prospectus, including the Forecast Financial Information, are based on assumptions, some of which are set out in Section 4. Various factors, both known and unknown, may impact Pepper Money's performance and cause actual performance to vary significantly from what was expected. There can be no guarantee that Pepper Money will achieve its stated objectives or that any forward-looking statement or forecast will eventuate.

5.3 General risks of an investment in Pepper Money

5.3.1 Price of Shares

Once Pepper Money becomes a publicly listed company on the ASX, it will be subject to general risks applicable to all securities listed on a stock exchange. This may result in fluctuations in the Share price that cannot be explained by the performance of Pepper Money. The price of Shares quoted on ASX may rise or fall and the Shares may trade below or above the Offer Price due to a number of factors. There is no assurance that the price of the Shares will increase following the quotation on ASX, even if Pepper Money's earnings increase.

Some of the factors that may affect the price of the Shares include:

- general economic conditions, including unemployment, consumer confidence, interest rates and inflation rates;
- fluctuations in the local and global market for listed stocks;
- inclusion in or removal from market indices;
- changes to government fiscal, monetary or regulatory policy, legislation or regulation;
- acquisition and dilution;
- global hostilities, tensions and acts of terrorism; and
- pandemic risk.

5.3.2 Liquidity of Shares

Prior to the Offer, there has been no public market for the Shares. Once the Shares are quoted on ASX, there can be no guarantee that an active trading market for the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on ASX at any time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

5.3.3 Taxation changes

Tax laws in Australia are complex and are subject to change periodically, as is their interpretation by the courts and the tax revenue authorities. Any changes to the tax laws and tax rates imposed on Pepper Money in Australia may give rise to uncertainty and may affect returns to Shareholders. An interpretation of the taxation laws by Pepper Money which is contrary to that of a revenue authority in Australia may give rise to additional tax payable. This could have a material adverse effect on Pepper Money's financial performance in the relevant year.

Further, the acquisition and disposal of Shares will have tax consequences that will differ depending on the individual financial affairs of each investor. Tax rules or their interpretation may also change for Shareholders. Each prospective investor is encouraged to seek professional tax advice in connection with any investment in Pepper Money. To the maximum extent permitted by law, the Company, the Directors and each of their respective advisors accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus. Refer to Section 4 for additional taxation considerations.

5.3.4 Australian Accounting Standards

Australian Accounting Standards ("**AAS**") are set by the Australian Accounting Standards Board ("**AASB**") and are outside the control of both Pepper Money and its Directors. The AASB released new and refined AAS in 2018, which affects the future measurement and recognition of key income statement and balance sheet items, including revenue and receivables. There is a risk that interpretations of existing and the new and refined AAS, including those relating to the measurement and recognition of key income statement and balance sheet items, including revenue and receivables, may differ. Changes to the AAS issued by the AASB or changes in views on the application of those standards could have a negative impact on Pepper Money's financial performance and position reported in its consolidated financial statements.

5.3.5 Acquisition and dilution

Pepper Money may elect to issue Shares or engage in fundraisings and also to fund, or raise proceeds, for potential acquisitions in the future. The successful implementation of acquisitions will depend on a range of factors including funding arrangements, cultural compatibility, and operational integration. To the extent any acquisitions are not successfully integrated with Pepper Money's existing business, this may ultimately impact Pepper Money's business, operations and financial performance.

Pepper Money or any of its partners may also fail to identify material problems during due diligence in relation to any potential acquisition, over-pay for assets and may acquire types of assets which the Company has not previously held. There is no guarantee that any prior or future acquisition will perform as expected or that the returns from such acquisitions will support the financing used to acquire them or maintain them.

Shareholder interests may be diluted and Shareholders may experience a loss in value of their equity if Pepper Money issues Shares as consideration for acquisitions, funds acquisitions through raising equity capital or if Pepper Money engages in fundraisings for any other reason, including the repayment of debt. While Pepper Money will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares and fundraisings.

5.3.6 Force majeure events

Events may occur within or outside the countries in which Pepper Money operates, which can impact upon those economies, the operations of Pepper Money and the market price for Shares. These events include, but are not limited to, acts of terrorism, an outbreak of international hostilities, currency restrictions, embargos lockdown, lockouts, forced closures, restrictions on mobility, fires, floods, earthquakes, labour strikes, civil wars, natural disasters and outbreaks of disease such as pandemics, or other natural or man-made events or occurrences. Such occurrences can have an adverse effect on the demand for Pepper Money's services and its ability to conduct business. Pepper Money has limited ability to insure against some of these risks.

5.3.7 Epidemics and pandemics

In addition to force majeure events mentioned in Section 5.3.6 above, a rapid spread of infectious disease to a large number of people within a short period of time may occur within or outside the countries in which Pepper Money operates. In particular, a pandemic similar in nature to the 2002-03 outbreak of Severe Acute Respiratory Syndrome, the 2009 swine flu outbreak or the 2019-21 COVID-19 outbreak may adversely affect general economic sentiment, the global economy, stock markets and other financial markets. Measures introduced to limit transmission in an epidemic or pandemic are likely to have a negative impact on the global economy and economic growth. It is difficult to predict the nature and extent of the risk and the impact on Pepper Money. The potential negative impact of an epidemic or pandemic on, the demand for or availability of, credit and funding, consumer sentiment and confidence generally are all factors, either alone or in combination that could materially adversely affect Pepper Money's operations and financial performance.

5.3.8 Conclusion

The above list of risk factors should not be taken as an exhaustive list of the risks faced by Pepper Money or by investors in Pepper Money. The above factors, and others not specifically referred to above, may materially affect the financial performance of Pepper Money and the value of the Shares under the Offer. The Shares issued under the Offer carry no guarantee in respect of profitability, dividends, return of capital or the price at which they may trade on the ASX. Furthermore, there is no guarantee that the Shares will remain continuously quoted on the ASX, which could impact the ability of prospective Shareholders to sell their Shares.

Investors should consult their professional adviser before deciding whether to apply for Shares under the Offer.

6 Key individuals, interests and benefits

6.1 Overview

6.1.1 Board of Directors

The Directors of Pepper Money Limited bring to the Board a broad range of relevant experience and skills across a variety of industries including consumer lending, specialist lending, insurance, law, investment banking and mortgage broking. Michael Culhane and Mario Rehayem's in depth knowledge of the Pepper Money business through their executive roles is well complemented by Independent Non-Executive Directors who have deep experience in the financial services industry as well as at the board level.

Name	Role
Michael Culhane	Chairman
Mario Rehayem	Chief Executive Officer
Des O'Shea	Non-Executive Director
Mike Cutter	Independent Non-Executive Director
Akiko Jackson	Independent Non-Executive Director
Justine Turnbull	Independent Non-Executive Director
Rob Verlander	Independent Non-Executive Director

Table 32 summarises the Pepper Money Limited Directors and their backgrounds.

Table 32: Board of Directors

Director	Biography
 **Michael Culhane** *Chairman and Shareholder Representative Director*	Michael is currently the CEO of the Pepper Global Group and is responsible for the global financial performance and strategy of businesses in the 12 jurisdictions in which Pepper Group currently operates. Michael founded Pepper Money in 2000. From 2001 to 2008, Michael chaired the Board as well as founding and running Oakwood Global Finance LLP that grew into a diversified specialty finance business. Prior to founding Pepper Group, Michael served as the Executive Chairman of Future Mortgages (UK non-conforming residential mortgage lender) and the Chief Executive Officer of the London office of FBR, a United States-based investment bank (while at FBR, Michael worked for 10 years in equity capital markets). Michael is appointed by Pepper Global as a Shareholder Representative Director.[1]

1. As provided for by the Relationship Deed, for so long as the Relevant Interest of Pepper ANZ HoldCo is greater than 10% but less than or equal to 20%, Pepper ANZ HoldCo may appoint 1 Director. Where Pepper ANZ HoldCo's Relevant Interest is greater than 20% but less than or equal to 40% – Pepper ANZ HoldCo may appoint 2 Directors. Where Pepper ANZ HoldCo's Relevant Interest is greater than 40% (and the total number of Directors is more than 8), Pepper ANZ HoldCo may appoint 3 Directors. See Section 9.5.1.2 for more information. As at Completion of the Offer, Pepper ANZ HoldCo will hold a Relevant Interest in approximately 60.6% of the Shares on issue in Pepper Money.

Director	Biography
 **Mario Rehayem** *Chief Executive Officer*	Mario joined Pepper Money in 2011 and has held various roles including Managing Director, Australian Mortgages and Personal Loans, Director of Sales and Distribution, Australian Mortgages and Personal Loans. Mario was appointed Chief Executive Officer of Pepper Money Limited in 2017 and is responsible for the strategy and oversight of Pepper Money businesses across Australia and New Zealand. With over 18 years of extensive experience across banking and finance, Mario has held senior positions in an ADI environment as well as in the non-bank sector. Mario held various roles including State Manager, Mortgage Broker Distribution – Western Australia and South Australia for Westpac and is a known champion of mortgage broker education and growing the specialist lending category. In 2019, Mario was included in the MPA Mortgage Global 100 List featuring leaders who are making a difference in today's mortgage industry.
 **Des O'Shea** *Non-Executive Director and Shareholder Representative Director*	Des has more than 40 years' global experience in Banking and Consumer Finance. He was appointed to the Pepper Group Board in March 2014 and he Chairs the Group Audit and Risk Committee. Des is currently Chairman of Oodle Finance; a U.K. based auto finance business and is on the board of Byblos Bank in Lebanon (where he is Chair of the Risk Committee) and Byblos Bank Europe (where he is Chair of the Audit and Risk Committee). Des was Chair of Ulster Bank Limited in Ireland until July 2020, and is a Fellow of Chartered Accountants in Ireland. He has been on the board of banks and other financial institutions in more than 12 countries in Europe, Asia, South and Central America. Des is appointed by Pepper Global as a Shareholder Representative Director.[2]
 **Mike Cutter** *Independent Non-Executive Director*	Mike has over 30 years' experience in the financial services industry, both in Australia and abroad, extensive knowledge of comprehensive credit reporting regimes in Australia and international markets, and has been one of the original champions in the Australian market. Mike is currently a Non-Executive Director of Sezzle, an ASX listed Buy Now Pay Later company. Prior to joining the Pepper Money Board, Mike held various executive positions including Group Managing Director of Equifax ANZ, Chief Risk Officer ANZ (Australia Division), CEO at GE Money Australia & New Zealand, and CEO of OAMPS Insurance Brokers. Mike has held various directorships and chairmanships with Wesfarmers, and Pepper ANZ companies, and with GE, and AFC from 2006 and NIBA from 2013. Mike is a Senior Fellow of Finsia, Graduate of the AICD, served as a Director of the Women's Cancer Foundation from 2006 to 2015, Director of the Australian Finance Conference from 2006 to 2009 and National Insurance Brokers Association from 2013 to 2014.

2. As provided for in the Relationship Deed. See Section 9.5.1.2 for more information.

Director	Biography
 **Akiko Jackson** *Independent Non-Executive Director*	Akiko is an internationally experienced Non-Executive Director and strategy adviser. Akiko has more than 30 years' experience as an executive in the financial services industry including with CBA, Macquarie and Westpac in Australia and MUFG and Shinsei Bank in Japan, and as a strategy consultant in the US and Australia. Akiko has worked in both the private and the public sectors and has extensive experience in strategy & business development, risk management and large scale transformation, including digital transformation. Akiko has led an Initial Public Offering and been involved in multiple equity raisings. Akiko is a Non-Executive Director of the Australian Children's Education and Care Quality Authority ("ACECQA") and of the Foundation and Friends of the Botanic Gardens and a member of the Portfolio Advisory Council of Services Australia. Akiko's past directorship includes a Non-Executive Director of 86 400 Limited, as well as being a member of the Advisory Committee of the Australian Treasury and the Strategy Advisory Committee of the Department of Immigration and Border Protection. Akiko is a Fulbright Scholar with an MBA from Stanford University in California and has a Bachelor of Law from Keio University in Tokyo.
 **Justine Turnbull** *Independent Non-Executive Director*	Justine has over 25 years' experience in driving commercial business success with her specialist legal experience on executive employment and related governance issues, in both private and public enterprises and on national and global levels. Prior to joining the Pepper Money Board, Justine held various positions including founding Partner of Seyfarth Shaw Australia and Partner of Herbert Smith Freehills. More recently Justine has consulted businesses on workplace behaviour and culture issues. Justine has a long association with Pepper Money, initially as lead Employment Advisor on the Australian GE Residential Mortgages acquisition in 2011, and then as ongoing employment advisor with Herbert Smith Freehills and Seyfarth Shaw. Justine is a former board member for Catholic Schools NSW/ACT, Access EAP and TAFE NSW.
 **Rob Verlander** *Independent Non-Executive Director*	Rob has held senior positions at investment and commercial banks, in Australia and the United Kingdom, in Fixed Income, Capital Markets, Infrastructure and Securitisation for over 35 years. These include: Head of DCM Origination BZW Australia (Barclays Banking Group), Head of Fixed Income Commonwealth Bank of Australia (Europe), member of management committee CBA (Europe), Head of Primary Markets CBA, and a leading member of CQ (CBA's Institutional Bank Diversity and Culture Council). Prior to his retirement from the banking industry in 2019, Rob was head of the Securitisation business at the Commonwealth Bank of Australia, where he acted as banker to many of Australia's major non-bank lenders, including Pepper Money. Rob holds a Bachelor of Arts and Law (University of Melbourne), Master of Applied Finance (Macquarie University) & Graduate Diploma in Commercial Law (Monash University).

The composition of the Board committees and a summary of its key corporate governance policies are set out in Section 6.8.

Each Director above has confirmed to Pepper Money that they anticipate being able to perform their duties as a Non-Executive Director or Executive Director, as the case may be, without constraint having regard to their other commitments.

6.1.2 Director Disclosures

This section sets out information about:

- any company that entered into a form of external administration because of insolvency during the time a Director was an officer of that company (or within a 12 month period afterwards); or
- any legal or disciplinary action against a Director (or against companies that the Director was a director of at the relevant time) that are less than 10 years old.

Des O'Shea was a recently resigned director of Ulster Bank Ireland DAC when it was the subject of the following fines:

- approximately €3,325,000 and €4,600,000 in 2016 and 2020 respectively, related to failings in anti-money laundering and counter terrorism framework and procedures and governance failings relating to regulatory returns that were required under the Mortgage Arrears Resolution Targets Framework; and
- approximately €37.7 million in 2021 in respect of Ulster Bank Ireland DAC's serious failings in the treatment of its tracker customers holding 5,940 mortgage accounts. These customers having moved to other products in the period 2008-2010 were not allowed to return to tracker mortgages. Remediation of these customers was not fully completed until 2020.

Des O'Shea was a recently resigned director of Garanti Bank (a company incorporated in Turkey) when it was the subject of certain fines by the Turkish Competition Board of approximately $92 million related to alleged anti-competitive behaviour by the company. The Board understands that the fine imposed in 2013 was appealed by the company and a final decision is being awaited. Des O'Shea resigned as a director of Garanti Bank on 22 March 2011.

In each of the circumstances set out above, no adverse findings against Des O'Shea were made.

In each case set out above, the other Directors of Pepper Money do not believe that the above matters are material to the future performance of the relevant Director's duties as a director of Pepper Money or the future performance of Pepper ANZ.

6.1.3 Senior Management

Pepper Money's Senior Management team are highly qualified and experienced professionals in their respective fields. A number of the Senior Management team have had lengthy tenures at the wider Pepper Group and come with diverse and highly complementary backgrounds.

Name	Role
Mario Rehayem	Chief Executive Officer
Therese McGrath	Chief Financial Officer
Sue Kent	Chief Human Resources Officer
Aaron Milburn	General Manager, Mortgages and Commercial Lending
Anthony Moir	Treasurer
Ken Spellacy	General Manager, Asset Finance
Matthew Tinker	General Manager, Operations
Michael Vainauskas	Chief Risk Officer
John Williams	General Counsel and Company Secretary

Table 33 summarises the Pepper Money Senior Management team and their backgrounds.

Table 33: Senior Management

Executive	Biography
 **Mario Rehayem** *Chief Executive Officer*	Refer to Section 6.1.1.
 **Therese McGrath** *Chief Financial Officer*	Therese joined Pepper Money in January 2018 as Chief Financial Officer and is responsible for providing the leadership and financial and operational management necessary to ensure that Pepper Money delivers on its strategic goals and objectives. Therese has over 25 years' international experience across finance, strategy and operations. Prior to joining Pepper Money, Therese held numerous senior roles at various companies including Diageo plc, Microsoft, SAP and Australian and New Zealand Banking, as well as various executive directorships including on the Oasis Fund Management and OnePath Custodians boards.
 **Sue Kent** *Chief Human Resources Officer*	Sue joined Pepper Money in 2009 as Head of Human Resources, and was appointed as Chief Human Resources Officer for Pepper Money in 2017 with over 20 years' generalist human resources experience gained within a diverse range of industries. Sue leads the human resources team for Pepper Money and provides strategic and operational initiatives to support Pepper Money's people management practices. Prior to joining Pepper Money, Sue held numerous senior human resource roles with Nestlé Australia, Philips Electronics and BHP.
 **Aaron Milburn** *General Manager, Mortgages and Commercial Lending*	Aaron has responsibility for the strategic direction and operating performance across the product, credit, settlements, and sales functions (Mortgages), and also acts as Pepper's Country Head in New Zealand. With over 20 years' experience in financial services, Aaron is skilled at leading large teams, strategic planning, strategy, and execution of industry leading sales management practices. Prior to joining Pepper Money in 2017, Aaron gained valuable sales and distribution leadership experience at Westpac, St George, Citibank, Bankwest and HBOS. Aaron has also been named in the MPA Global Top 100 Mortgage Professional List 2019 and 2020 and is an active participant in industry thought leadership.
 **Anthony Moir** *Treasurer*	Anthony joined Pepper Money in February 2021 and is responsible for the leadership of Pepper's treasury function including the strategic direction and execution of Pepper's multicurrency funding programmes. Bringing more than 25 years of experience in treasury and debt capital markets, Anthony has gained across a diverse range of bank and non-bank lenders including Qudos Bank, GE Capital, AMP, CBA and Citigroup. Anthony's experience includes establishment and execution of multicurrency securitisation programmes, strategic oversight and management of originate to sell asset portfolios and management of traditional forms of senior unsecured debt issuance including commercial paper and medium-term notes.

Executive	Biography
 **Ken Spellacy** *General Manager, Asset Finance*	Ken has over 25 years' experience in the asset finance industry, successfully leading sales, credit and operational teams. Joining Pepper Money in 2015 in the role of Head of Credit and Settlements for the Asset Finance business, Ken was appointed as General Manager of Asset Finance for Pepper Money in 2019. Ken is responsible for the strategic direction, operational delivery and financial performance of Pepper Money's Asset Finance business. Prior to joining Pepper Money, Ken held senior leadership roles across various financial institutions including Capital Finance, St. George Bank and Westpac.
 **Matthew Tinker** *General Manager, Operations*	Matthew joined Pepper Group in 2011 in the role of Head of Collections and was appointed as General Manager of Operations for Pepper Money in 2020. Matthew is responsible for the strategic direction and operating performance across Customer Service and Collections functions, as well as the operational responsibility for PSO Manila. Matthew has over 15 years' experience in financial services in Operations and Project Management roles, including Operations roles at the Commonwealth Bank of Australia and Woolworths Group.
 **Michael Vainauskas** *Chief Risk Officer*	Michael has over 30 years' experience across the customer lifecycle in both ADI and non-bank financial sectors, and joined Pepper as Chief Risk Officer for Pepper Money in August 2020. Michael is responsible for ensuring that the Governance, Risk, Compliance and Control Strategies and Frameworks are designed and operating effectively. Prior to joining Pepper Money, Michael held various senior roles at Perpetual Ltd, Commonwealth Bank of Australia including PTBC Indonesia, Westpac including both St George Bank and AGC, AVCO Money, and Household Financial Services.
 **John Williams** *General Counsel and Company Secretary*	John joined Pepper Money in 2012 as General Counsel, and in 2014 began his role as Company Secretary. John advises senior management and the Board on legal matters, leads Pepper Money's legal and secretariat teams, and manages the work of external legal advisors. Prior to joining Pepper Money, John worked as Legal Counsel for GE Capital and as a solicitor with Mallesons Stephen Jaques (now King & Wood Mallesons).

6.2 Interests and benefits

This section sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of the Company;
- Person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- Promoter of the Company; or
- Underwriter (but not a sub-underwriter) to the Offer or a financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

held, at the time of lodgement of this Prospectus with ASIC, or has held in the 2 years before the lodgement of this Prospectus with ASIC, an interest in:

- The formation or promotion of the Company;
- Property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- The Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

6.3 Directors' interests and remuneration

6.3.1 Chief Executive Officer

Mario Rehayem is employed as the Chief Executive Officer. Refer to Section 6.6.1 for further details.

6.3.2 Non-Executive Director remuneration

Under the Constitution, Pepper Money may, in general meeting, determine the maximum aggregate remuneration to be provided to or for the benefit of the Non-Executive Directors as remuneration for their services as a Director. Further, under ASX Listing Rules, the total amount of Director's fees paid to the Directors (subject to certain exceptions) must not exceed in aggregate in any financial year the amount fixed by the Company's members in general meeting.

Initially, and until a different amount is determined, the maximum aggregate Directors' remuneration for the purposes of ASX Listing Rules and the Constitution is $1,221,000 per annum. This amount excludes, among other things, amounts payable to any executive Director under any executive services agreement with Pepper Money or any special remuneration that the Board may grant to the Directors for special exertions or additional services performed by a Director for or at the request of the Company, as well as any securities issued to Directors (or which are intended to be issued to Directors) as disclosed in this Prospectus, or which are issued to a Non-Executive Director under ASX Listing Rule 10.11 or 10.14 with the approval of Shareholders.

The following annual base fees are payable to Directors (with effect from Completion).

Chairman	$234,000
Other Non-Executive Directors	$115,000

In addition to the annual base fee set out above each Non-Executive Director (except for Des O'Shea and Michael Culhane) was or will be paid an amount equal to the equivalent of the monthly amount of the annual fee for the period from the date that the Non-Executive was engaged by the Company until Completion of the Offer (reduced pro rata in respect of any partial month and less any applicable tax) (Pre-IPO Fee). The Pre-IPO Fee was paid in consideration for services provided by these Non-Executive Directors in preparation for the Offer.

6.3.3 Directors' appointment letters

Prior to the Prospectus Date, each of the Non-Executive Directors has entered into appointment letters with Pepper Money, confirming the terms of the appointments, their roles and responsibilities, and Pepper Money's expectations of them as Directors.

6.3.4 Deeds of access, indemnity and insurance for Directors

The Company has entered into a deed of indemnity, insurance and access with each Director which confirms the Director's right of access to Board papers and requires the Company to indemnify the Director, on a full indemnity basis and to the maximum extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of the Company or a related body corporate.

Under the deeds of indemnity, insurance and access, the Company must maintain a directors and officers insurance policy insuring each Director (among others) against liability as a director and officer of the Company and its related bodies corporate until seven years after a director ceases to hold office as a Director of the Company or a related body corporate (or the date any relevant proceedings commenced during the seven year period have been finally resolved).

6.3.5 Directors' shareholdings

Directors are not required under the Constitution to hold any Shares, but are entitled to participate in the Broker Firm Offer, and the Priority Offer.

On Completion of the Offer, the Directors (and their associated entities) are expected to hold the Shares as set out below.

Table 34: Directors' shareholdings

Director	Shares held prior to Completion of the Offer	Shares held prior to Completion of the Offer (%)	Shares held at Completion of the Offer	Shares held at Completion of the Offer (%)
Michael Culhane	–	–	–	–
Mario Rehayem	–	–	2,387,234	0.543%
Des O'Shea	–	–	41,523	0.009%
Mike Cutter	–	–	17,302	0.004%
Akiko Jackson	–	–	34,603	0.008%
Justine Turnbull	–	–	8,651	0.002%
Rob Verlander	–	–	51,905	0.012%
Total	**–**	**–**	**2,541,218**	0.578%

Includes Shares held by closely related parties.

Note: This table includes Shares purchased by the Directors (or their associated entities) in the Offer. Directors may hold their interests in Shares shown above directly or indirectly through holdings by companies or trusts. Rights to be acquired under the incentive schemes in which Mario Rehayem, Mike Cutter, Akiko Jackson, Justine Turnbull and Rob Verlander are participants are set out in Section 6.7

6.3.6 Tracker Shares

Certain members of Management held A1 Tracker Shares in Red Hot HoldCo which were exchanged for A1 Tracker Shares in Pepper Global TopCo as a part of the Restructure. Michael Culhane and his affiliates also held A2 Tracker Shares in Red Hot HoldCo which were exchanged for A2 Tracker Shares in Pepper Global TopCo.

The A1 Tracker Shares and A2 Tracker Shares in Pepper Global TopCo (**Tracker Shares**) were issued under the terms of the TopCo incentive plan rules and are intended to track the performance of the business of Pepper Money (as distinct from other business units within Pepper Global). The value of the Tracker Shares is realised when Pepper Global TopCo reduces its interest (currently held through Pepper ANZ Holdco, its wholly owned subsidiary) in Pepper Money and there has been a receipt of net value by Pepper Global TopCo in Pepper Money.

An interest in a Tracker Share does not amount to an interest in a Share. However, Michael Culhane and the relevant members of Management may receive funds as a result of a reduction in Pepper Global TopCo's interest in the Company, whether at Completion of the Offer or subsequently, and which in each such case will be calculated based on factors including the net proceeds received by Pepper Global TopCo as part of such reduction. The board of Pepper Global TopCo has ultimate control on the decision to reduce its interest in Pepper Money.

The Offer may trigger a payment to the Tracker Shareholders (including members of Management and Michael Culhane). As at Prospectus Date, it is not possible to confirm whether an entitlement to a payment under the Tracker Shares will be triggered by the Offer or the quantum of a potential payment.

6.4 Buy-back of Pepper Global TopCo Shares, Management Offer and executive loans under the legacy management incentive scheme

As summarised in Section 9.4, prior to the Prospectus Date, Pepper Money and its subsidiaries were reorganised into a separate corporate group within the broader Pepper Global Group as part of a wider reorganisation of companies ultimately owned by Pepper Global Topco.

Certain members of Management, including Mario Rehayem (**Management Shareholders**) who hold (either directly or through a related party) ordinary shares in Pepper Global TopCo (**TopCo Shares**) as a result of the Restructure have been given the opportunity to elect to have a portion or all of their TopCo Shares acquired (**TopCo Buy-Back**). The TopCo Buy-Back is being made on the basis that an amount equal to the funds received from the TopCo Buy-Back by each Management Shareholder, will be used to subscribe for Shares under the Management Offer (**Subscription**). See Section 7.7 for details of the Management Offer.

The Shares issued to Management Shareholders under the Management Offer are subject to escrow arrangements (refer to Section 7.9 and Section 9.5.7).

Prior to the Prospectus Date, the majority of the Management Shareholders, including Mario Rehayem were parties to one or more limited-recourse loan agreements with the Company, pursuant to which the Company (or various previous lenders under such loan agreements prior to assignment of the relevant loan to the Company as part of the Restructure) for purposes including the acquisition of shares in connection with prior employee incentive schemes with the Pepper Global Group (**Legacy Loans**).

Before Settlement, each of the Management Shareholders will enter into a new loan agreement with the Company under which the Company agrees, subject to Settlement, to provide a loan to such Management Shareholders in an amount which (a) is sufficient to repay all Legacy Loans for which they are a borrower in full and (b) represents the amount of tax that such person will be required to pay as a result of participating in the TopCo Buy-Back (**Management Loans**). The Management Loans are limited recourse, non-interest bearing and must be repaid out of any proceeds from the sale of the Shares held by the relevant member of Management.

On Completion of the Offer:

- the total value of the Management Loan to Mario Rehayem will be $3,132,712 and relate to 2,387,234 Management Shares; and
- the total value of the outstanding Management Loans to the other Management Shareholders will be $2,583,238 and relate to 2,237,020 Management Shares.

6.5 Interests of advisers

Pepper Money has engaged the following professional advisers in relation to the Offer:

- Credit Suisse and Goldman Sachs have acted as joint global co-ordinators, joint bookrunners and joint lead managers to the Offer and the fees payable to them pursuant to the Underwriting Agreement are described in Section 9.5.6;
- KKCM and RBC have acted as joint bookrunners and joint lead managers to the Offer and the fees payable to them pursuant to the Underwriting Agreement are described in Section 9.5.6;
- National Australia Bank Limited has acted as Co-Lead Manager to the Offer and the fees payable to the Co-Lead Manager are described in Section 9.5.6;
- Commonwealth Securities Limited and Escala Partners Limited have acted as Co-Managers to the Offer and the fees payable to the Co-Managers are described in Section 9.5.6
- Gilbert + Tobin has acted as Australian legal adviser to Pepper Money in relation to the Offer. Pepper Money has paid, or agreed to pay, approximately $1,150,000 (excluding disbursements and GST) for these services up until the prospectus Date. Further amounts may be paid to Gilbert + Tobin in accordance with its normal time-based charges.
- Deloitte Corporate Finance Pty Limited has acted as the Investigating Accountant in connection with the Offer and has performed work in relation to the Investigating Accountant's Reports. Pepper Money has paid, or agreed to pay, approximately $750,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Deloitte Corporate Finance Pty Limited in accordance with its normal time-based charges;

- PricewaterhouseCoopers has acted as the Australian taxation adviser in relation to the Offer. Pepper Money has paid, or agreed to pay, approximately $100,000 (excluding disbursements and GST) for these services up and until the Prospectus Date. Further amounts may be paid to PricewaterhouseCoopers in accordance with its normal time-based charges; and
- Reunion Capital Partners Pty Ltd has agreed to act as financial adviser in relation to the Offer. Pepper Money has paid, or agreed to pay, up to $3,810,705 (excluding disbursements and GST) for these services up and until the Prospectus Date.

These amounts, and other expenses of the Offer, will be paid by Pepper Money out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.1.3. Pepper Money is responsible for all of the costs of the Offer which will be paid out of the Offer Proceeds.

The affiliates of the Joint Lead Managers (other than KKCM) have also advanced funds to Pepper Money under the Bridge Facility. The Bridge Facility and Corporate Debt Facility (please see Section 9.5.3 for further detail on the Bridge Facility and Corporate Debt Facility). Proceeds of the Offer will be used to partially repay the Bridge Facility.

KKCM will receive fees payable to it as a joint bookrunner and joint lead manager of the Offer, as described in Section 9.5.6. KKCM is an affiliate of KKR Credit. KKR Credit currently owns 64.94% of the shares in Pepper Global TopCo and will hold 65.60% of the shares in Pepper Global TopCo on Completion of the Offer. Pepper ANZ HoldCo (the Company's current sole shareholder and which will retain ~60.59% of the Shares after Completion of the Offer) is an indirectly wholly-owned subsidiary of Pepper Global TopCo.

6.6 Key Management remuneration

The Key Management personnel of Pepper Money are Mario Rehayem (CEO) and Therese McGrath (CFO). Their employment arrangements are summarised below.

6.6.1 Chief Executive Officer – Mr Mario Rehayem

Mario Rehayem is employed by Pepper Money Limited in the position of Chief Executive Officer. Mario's annual fixed pay is $1,029,375, which includes Base Salary, superannuation and other benefits payable to Mario Rehayem, such as health insurance, car allowance, car parking and a business phone.

In addition to his fixed pay, Mario is entitled to receive a short-term incentive (**STI**) in respect of each financial year (i.e. from 1 January to 31 December) of 70% of his fixed pay for the achievement of target objectives, with 35% deferred for 2 years. The assessment of Mario's entitlement to the STI, and the quantum of any such incentive, is subject to the achievement of certain objectives set by the CEO and Board.

Mario's eligibility to participate in Pepper Money's equity incentive plans (and grants made under those plans) is described in Section 6.7.

Mario's employment may be terminated by Pepper Money at any time without notice, and with immediate effect, if he does any of the following:

- is unable to perform his duties or responsibilities because he becomes of unsound mind or suffers a permanent incapacity;
- engages in serious or wilful misconduct, commits any act of fraud, gross negligence or breach of duty;
- materially fails to perform his duties;
- commits a serious or persistent breach of his employment agreement;
- commits an act (at work or otherwise) which brings Pepper Money into disrepute;
- is precluded from taking part in the management of a corporations by the provisions of the Corporations Act;
- is convicted of an offence punishable by imprisonment;
- breaches the confidentiality provisions in his employment agreement; or
- commits any act in the course of dealing with the Board which is dishonest, misleading or deceptive.

Otherwise, Pepper Money can terminate Mario's employment on 12 months' notice.

Mario may terminate his employment with Pepper Money by giving 12 months' notice.

Mario is eligible to participate in certain of Pepper Money's equity-based incentive plans (see Section 6.7). The Board (other than Mario Rehayem) has resolved to grant Mario the Rights set out in Section 6.7.

Mario's employment agreement contains a 24 months non-solicitation and 12 months non-compete restraint clause.

6.6.2 Chief Financial Officer – Ms Therese McGrath

Therese McGrath is employed by Pepper Money Limited in the position of Chief Financial Officer. Therese's annual fixed pay is $620,000, which includes Base Salary, superannuation and other benefits payable to Therese McGrath, such as health insurance, car parking and a business phone.

In addition to her fixed pay, Therese is entitled to receive a short-term incentive (STI) in respect of each financial year (i.e. from 1 January to 31 December) of 40% of her fixed pay for the achievement of target objectives, with 20% deferred for 2 years. The assessment of Therese's entitlement to the STI, and the quantum of any such incentive, is subject to the achievement of certain objectives set by the CEO and Board.

Therese's eligibility to participate in Pepper Money's equity incentive plans (and grants made under those plans) is described in Section 6.7.

Therese's employment may be terminated by Pepper Money at any time without notice, and with immediate effect, if she does any of the following:

- is unable to perform her duties or responsibilities because she becomes of unsound mind or suffers a permanent incapacity;
- engages in serious or wilful misconduct, commits any act of fraud, gross negligence or breach of duty;
- materially fails to perform her duties;
- commits a serious or persistent breach of his employment agreement;
- commits an act (at work or otherwise) which brings Pepper Money into disrepute;
- is precluded from taking part in the management of a corporations by the provisions of the Corporations Act;
- is convicted of an offence punishable by imprisonment;
- breaches the confidentiality provisions in her employment agreement; or
- commits any act in the course of dealing with the Board which is dishonest, misleading or deceptive.

Otherwise, Pepper Money can terminate Therese's employment on 6 months' notice.

Therese may terminate her employment with Pepper Money by giving 6 months' notice.

Therese is eligible to participate in certain of Pepper Money's equity-based incentive plans (see Section 6.7). The Board has resolved to grant Therese the Rights set out in Section 6.7.

Therese's employment agreement contains a 24 months non-solicitation and 6 months non-compete restraint clause.

6.7 Equity-based remuneration arrangements

Prior to the Prospectus Date, Pepper Money established a number of long-term and short-term equity-based remuneration plans, details of which are set out below. These plans will operate post-IPO.

A summary of the plans, and the eligible participants, is included in the table immediately below, with further detail for each plan included further below.

Plan	Eligible participants
Equity Remuneration Plans	
Executive Rights Plan	All employees, excluding non-executive directors, as selected by the Board in its sole discretion are eligible under the plan rules. Long-Term Incentive Plan grants for CY2021 and deferral of CY2021 Short-Term Incentive Plan awards It is expected that the CEO, and all direct reports to the CEO will be participants for CY2021. IPO grant A one-off IPO grant will be offered to the CEO, Mario Rehayem, and the CFO, Therese McGrath.
Employee Rights Plan	For key employees below the executive level. Non-executive directors are excluded.
NED Equity Plan	All non-executive directors (only) as selected by the Board in its sole discretion, are eligible to participate in the plan.
$1,000 tax-exempt share plan	All Australian and New Zealand employees, excluding non-executive directors, as selected by the Board in its sole discretion, are eligible to participate in the plan.
Share Save Plan	All Australian employees
Short-Term Incentive Plan	
STIP	All employees, excluding non-executive Directors, as selected by the Board in its sole discretion, are eligible to participate in the STIP. It is expected that the CEO, and all direct reports to the CEO will be participants for CY2021.

The following grants of Rights are intended to be made to the following KMP and Directors under the various equity-based remuneration plans:

Participant	Number of Rights to be granted 3 months following Completion
Mario Rehayem (CEO)	1,692,832
Therese McGrath (CFO)	826,253
Mike Cutter (NED)	39,792
Akiko Jackson (NED)	39,792
Justine Turnbull (NED)	39,792
Rob Verlander (NED)	39,792

6.7.1 Executive Rights Plan

Pepper Money has established an executive rights plan (**Executive Rights Plan**) to assist in the attraction, alignment and motivation of eligible employees. The Executive Rights Plan involves the grant of rights that are designed to align the interests of employees with the interests of Shareholders, by providing an opportunity to receive an equity interest in Pepper Money when applicable performance and service conditions are met.

Under the Executive Rights Plan, eligible employees may be offered rights which may be subject to vesting and exercise conditions (**Rights**). Each Right is an entitlement to the value of a Share (less any exercise price) which may be settled in the form of Shares (with or without disposal conditions) or cash (at the discretion of the Board).

The Executive Rights Plan permits the grant of Performance Rights (subject to performance and service vesting conditions), Service Rights, which are subject to service vesting conditions only; and Restricted Rights, which are fully vested at grant, but remain subject to exercise and, potentially, disposal restrictions.

The Board anticipates that the first grants of Rights under the Executive Rights Plan will be:

- a grant to the CEO, Mario Rehayem, and his direct reports, as a long-term incentive component of their CY2021 remuneration (see Section 6.6 for more information); and
- an IPO grant to the CEO, Mario Rehayem, and the CFO, Therese McGrath (see Section 6.7.1.2 for more information).

Pepper Money may offer additional grants to eligible participants over time, in accordance with the rules of the Executive Rights Plan.

6.7.1.1 Terms of the Executive Rights Plan

The key terms of the Executive Rights Plan are as follows:

Term	Description
Eligibility	All employees, excluding non-executive directors, as selected by the Board in its sole discretion, are eligible to participate in the Executive Rights Plan.
Terms and conditions	The Board has discretion to set the terms and conditions (including conditions in relation to vesting, cash settlement, disposal restrictions or forfeiture) on which it will make invitations under and accordance with the Executive Rights Plan.
Invitation	The specific terms of a given grant will be specified in an invitation. The Board may specify a gate condition in the invitation, which is a condition that must be met or exceeded before vesting conditions are assessed.
Term and Lapse	The Term of the Right is 15 years from the grant date, unless a shorter period is specified in an invitation. Rights lapse automatically if not exercised prior to the end of the term or when there is no further opportunity for them to vest.
Vesting, Exercise Restrictions and Exercise	Performance Rights and Service Rights vest when applicable performance and/or service conditions have been fulfilled, as specified in an invitation. Awards that are in the form of Restricted Rights are fully vested as at their grant date, but are not exercisable until the lapsing of exercise restrictions, which must be for a period of at least 90 days. The Board may determine to include a notional exercise price in the invitation. Vested Rights may be exercised at any time between the latter of the date in a vesting notice or the elapsing of any exercise restrictions specified in an invitation, and the end of their term, unless an invitation specifies an automatic exercise and settlement date as determined by the Board (as will apply in some overseas locations for tax and regulatory compliance reasons).
Settlement	The Board had discretion to settle exercised Rights in the form of cash or Shares (with or without disposal conditions) of equivalent value. If settled in Shares, settlement may be via on-market purchase or new issue, directly transferred to the participant, or via an employee share trust, at the Board's discretion. It is generally expected that exercised Rights will be settled in restricted Shares. Any new issues will be registered on the ASX and subject to quotation.
Retesting	No retesting facility is available under the Executive Rights Plan rules.

Term	Description
Amount Payable for Rights	No amount is payable by a participant for a grant, since the value is intended to form part of a remuneration package set with reference to market benchmarks and the remuneration policies applicable at the time of an invitation being made.
Disposal Restrictions	Rights may not be disposed of or transferred or otherwise dealt with (including being encumbered or made subject to any interest in favour of any other person) and will lapse immediately on purported disposal, transfer or dealing unless the transfer is effected by operation of law on death or legal incapacity to the participant's legal personal representative. Shares acquired on exercise of Rights may be restricted from dealing during the periods determined by Pepper Money's Securities Trading Policy (see Section 6.8.8), the application of restrictions contained in the Corporations Act and other applicable law, or due to restrictions specified in an invitation.
Cessation of Employment	The Board will determine, subject to compliance with applicable law and the rules of the plan, the treatment of a Right if a participant ceases to be employed by a Group Company prior to vesting. In the case of Performance Rights, upon cessation of employment there will be a pro-rata forfeiture of those Rights, reflecting the period of the first year of the relevant measurement period not served, with remaining performance-linked rights staying on foot for testing at the end of the relevant measurement period, unless otherwise determined by the Board.
Corporate Actions	The Board has discretion and will determine the impact of corporate events, including change of control, re-organisation of the capital of Pepper Money, any capital return, share consolidation or share rights (subject to applicable regulations and ASX Listing Rules). For Performance Rights in the case of a delisting, automatic vesting will occur based on the change in the share price since the start of the measurement period and pro-rata adjusted for the portion of the first year of the measurement period elapsed, unless otherwise determined by the Board.
Inappropriate Benefits Clause	The Executive Rights Plan includes an inappropriate benefits clause that is intended to function as both a malus and clawback clause, in addition to covering fraud, misconduct, and any other actions that the Board deems resulted in harm to the Company's stakeholders. In such circumstances, the Board may determine that some or all unexercised Rights are forfeited by a participant, if the benefit that would otherwise arise would be considered by the Board to be inappropriate.
Dividend and Voting Entitlements	Rights do not carry dividend or voting entitlements. Shares received following the exercise of Rights will be Shares that carry dividend and voting entitlements.
Board Discretions	The Board has broad discretions under the Executive Rights Plan, including to lapse or vest Rights at any time, and to make amendments to the Rules as necessary to comply with applicable regulations, or to correct any manifest error (subject to applicable regulations and ASX Listing Rules).

Term	Description
Plan Limit	No Rights may be issued to, or exercised by a participant if to do so would contravene the Corporations Act, the ASX Listing Rules or any relief or waiver granted by ASIC or the ASX that binds the Company in making any offer under the Executive Rights Plan or otherwise in connection with the operation of the Executive Rights Plan. The number of Rights which may be granted under the Executive Rights Plan prior to approval of the Plan Rules by Shareholders following Listing will not exceed 5% of the total issued capital of the Company as at Listing, with the total issued capital at Listing being 439.5 million. The Board will seek re-approval of the Plan at the earlier of each 3 years or when this limit is reached.

6.7.1.2 CY2021 grants under the Executive Rights Plan

Long Term Incentive grants

It is expected that Performance Rights will be granted to the CEO and his direct reports under the Executive Rights Plan in respect of CY2021 as part of their remuneration packages. The Board may issue further grants of Rights to executive members approved by the Board for the purpose of long term incentive in CY2022.

The Rights will be in the form of Performance Rights that will be subject to performance and service vesting conditions.

Term	Description
Grant Date	It is anticipated that the grant date for CY2021 LTIP will be approximately 3 months after Listing.
Number of Rights	The number of Rights to be granted will be calculated by reference to the target value of the relevant grant, dividend by the Black Sholes value of the Right at the time of calculation (ignoring vesting conditions) based on the Offer Price. The grants to the CEO and CFO for CY2021 LTIP are: • Mario Rehayem (CEO): 569,896 • Therese McGrath (CFO): 171,626
Acquisition Price	Rights will be issued at no cost to the participant.
Exercise Price	The exercise price of each Right will be nil.
Measurement Period	The Rights granted for CY2021 LTIP will be subject to a 3 year performance period commencing from the commencement of CY2021 to the end of CY2023.
Vesting Conditions	The vesting conditions will be set by the Board for each participant. The Rights vest in two tranches of 50% each. The vesting conditions for any CY2022 grants will be related to total shareholder return (**TSR**) (tranche 1) and earnings per share (tranche 2). Both tranches are subject to a parallel service condition for the first year of the measurement period.
Gate	Tranche 1 – Pepper Money's TSR must be positive in order for Rights in the tranche to vest. Tranche 1 and Tranche 2 – the rating for Pepper ANZ Risk Scorecard must be at least "met expectations" in the final year of the measurement period. If this Gate is not met then nil vesting applies to both tranches.

IPO Grant

The CEO and CFO will be granted the following Rights under the Executive Rights Plan for nil consideration in connection with the Offer (**IPO Grant**). The IPO Grant is being made with the intention of retaining and aligning the interests of key staff with new shareholders in the period before the long-term incentive may be eligible to vest:

CEO 267,139 Service Rights, 771,631 Service Share Appreciation Rights (**SARS**)

CFO 160,900 Service Rights, 464,759 SARS

The number of Rights to be granted will be calculated by reference to the target value of the relevant grant, dividend by the Black-Scholes value of the Right at the time of calculation (undiscounted for vesting conditions) based on the Offer Price. The Rights will be subject to performance and service vesting conditions.

Any grant of Rights will be on the terms generally described in Section 6.7.1, and as set out in the table below.

Term	Description
Grant Date	It is anticipated that the grant date for the IPO Grant will be approximately 3 months after Listing.
Exercise Price	The exercise price of the Service Rights will be nil. The exercise price for the SARS will be equal to the Offer Price.
Measurement Period	From the date of Listing until 31 December 2022.
Vesting Conditions	The proposed vesting condition is continued service for the whole of the measurement period. Cessation of employment prior to the end of the relevant period will result in the forfeiture of the Rights and SARS (unless determined otherwise by the Board). Conditions will not be assessed and vesting will not occur prior to the end of the measurement period.
Gate	The Company's share price at the end of the measurement period (based on a 10 day VWAP) must equal at least the Offer Price, or the Rights will not vest.

Deferred Short-Term Incentives

The CEO and his direct reports are subject to partial deferral of any short-term incentive awards, which applies to the CY2021 short-term incentive offers. Deferred awards are made in the form of Restricted Rights.

The number of Rights to be granted will be calculated by reference to the award for each participant in respect of CY2021, the deferral rate determined by the Board, and divided by the Black Sholes value of the Right at the time of calculation (ignoring vesting conditions) based on the Offer Price. The Rights will be subject to performance and service vesting conditions.

Any grant of Rights will be on the terms generally described in Section 6.7.1, and as set out in the table below.

Term	Description
Grant Date	It is anticipated that the grant date for the IPO Grant will be approximately March 2022.
Exercise Price	The exercise price of the Restricted Rights will be nil.
Exercise Restriction	Deferral is via an exercise restriction until the end of the second financial year following grant.

6.7.2 Employee Rights Plan

Pepper Money has developed an employee rights plan (**Employee Rights Plan**) which will be established to be governed by the CEO, and intended to facilitate equity-based remuneration structures for staff below the executive level, such as deferred short-term incentive plan awards, or retention grants for key talent. The plan is identical to the Executive Rights Plan.

The plan limit which applies before shareholder approval will be sought following listing is 5% of the Company's issued Shares as at Listing, with the Company's issued Shares as at Listing being 439.5 million.

6.7.3 NED Equity Plan

Pepper Money has established a non-executive director equity plan (**NED Equity Plan**) to facilitate equity-based remuneration structures for non-executive Directors, such as fee sacrifice into equity.

Under the NED Equity Plan, non-executive Directors may be offered Restricted Rights which, upon exercise, are an entitlements to Shares (**NED Rights**).

For CY2021, grants will be made to the non-executive Directors (as set out in the table in Section 6.7, above) to recognise their contribution to the work leading to the Listing, and to give effect to their elections to exchange cash for grants of equity in respect of the remainder CY2021 Board fees. The key terms of the CY2021 grant are:

- The number of Rights to be granted will be calculated by reference to the non-executive Director's remuneration, determined to be settled in equity, divided by the Black Sholes value of the Right at the time of calculation, based on the Offer Price.
- The Rights are anticipated to be granted approximately 3 months after Listing.
- Restricted Shares may not be disposed for so long as the non-executive Director holds office with Pepper ANZ.

The terms of the NED Equity Plan are set out below.

Term	Description
Eligibility	All non-executive Directors, as selected by the Board in its sole discretion, are eligible to participate in the NED Equity Plan.
Terms and Conditions	The Board has discretion to set the terms and conditions (including conditions in relation to vesting, cash settlement, disposal restrictions or forfeiture) on which it will make invitations under and in accordance with the NED Equity Plan.
Invitation	The specific terms of a given grant will be specified in an invitation.
Term and Lapse	The term of the NED Rights is 15 years from the grant date unless a shorter period is specified in an invitation. NED Rights lapse automatically if not exercised prior to the end of the term or when there is no further opportunity for them to vest.
Vesting, Exercise Restrictions and Exercise	NED Rights are fully vested at the grant date, but are not exercisable for a period of at least 90 days. The Board may specify exercise restrictions in an invitation which is a period during which vested NED Rights may not be exercised.
Settlement	Settlement of exercised Restricted Rights may be in the form Shares (with or without disposal conditions). If settled in Shares, settlement may be via on-market purchase or new issue, directly transferred to the participant, or via an employee share trust, at the Board's discretion. It is generally expected that exercised Rights will be settled in Restricted Shares. Any new issues will be registered on the ASX and subject to quotation.
Amount Payable for Rights	No amount is payable by a non-executive Director for a grant of NED Rights since the value is intended to form part of an annual remuneration package set with reference to market benchmarks and the remuneration policies applicable at the time of an Invitation being made. Fee sacrifice elections will generally apply however.

Term	Description
Disposal Restrictions	Rights may not be disposed of or transferred or otherwise dealt with (including being encumbered or made subject to any interest in favour of any other person) and will lapse immediately on purported disposal, transfer or dealing unless the transfer is effected by operation of law on death or legal incapacity to the Participant's legal personal representative. Shares acquired on exercise of Rights may be restricted from dealing during the periods determined by Pepper Money's Securities Trading Policy (see Section 6.8.8), the application of restrictions contained in the Corporations Act and other applicable law, or due to restrictions specified in an invitation. For NED fee sacrifice grants, a specified disposal restriction applies such that restricted shares may not be disposed of until the participant ceases to hold office or employment with Pepper ANZ (or the earlier elapsing of 15 years).
Cessation of Holding Office or Employment	If a NED ceases to hold office or employment with Pepper ANZ, then any specified disposal restrictions cease to apply.
Corporate Actions	The Board has discretion and will determine the impact of corporate events, including change of control, re-organisation of the capital of Pepper Money, any capital return, share consolidation or share rights (subject to applicable regulations and ASX Listing Rules). In the case of delisting, specified disposal restrictions will cease to apply.
Dividend and Voting Entitlements	NED Rights do not carry dividend or voting entitlements. Shares received following exercise of NED Rights will be Shares that carry dividend and voting entitlements.
Board Discretions	The Board has broad discretions under the NED Equity Plan to make amendments to the rules as necessary to comply with applicable regulations, or to correct any manifest error (subject to applicable regulations and ASX Listing Rules).
Plan Limit	No Rights may be issued to, or exercised by a participant if to do so would contravene the Corporations Act, the ASX Listing Rules or any relief or waiver granted by ASIC or the ASX that binds the Company in making any offer under the NED Equity Plan or otherwise in connection with the operation of the NED Equity Plan. The number of Rights which may be granted under NED Equity Plan prior to approval of the plan rules by Shareholders following Listing will not exceed 5% of the total issued capital of the Company at the date of Listing, with the total issued capital at Listing being 439.5 million. The Board will seek re-approval of the NED Equity Plan at the earlier of each 3 years or when this limit is reached.

6.7.4 $1,000 Tax Exempt Share Plan for CY2021

The following table summarises the key terms of the $1,000 Tax Exempt Share Plan (**TEP**) which will be established to facilitate grants of shares to general staff in recognition of their efforts leading up to the IPO. The TEP involves the grant of Restricted Shares which are Shares that are subject to disposal restrictions specified in an invitation.

The grants described below will be made shortly after Listing and are currently anticipated to be one-off grants.

Term	Description
Eligibility	All Australian and New Zealand employees, excluding non-executive directors, as selected by the Board in its sole discretion, are eligible to participate in the TEP.
Number of Restricted Shares	The number of Restricted Shares to be issued to each participant will be calculated by dividing $1,000 by the Company's share price immediately prior to the grant date, and rounded down.

Term	Description
Vesting and Disposal Restrictions	Restricted Shares are fully vested at their grant date, but will be subject to a specified disposal restriction for 3 years from grant.
Amount Payable for Rights	No amount is payable by a participant for a grant of Restricted Shares, since the value is intended to be a reward for the teamwork that led to the listing of the Company on the ASX and the equity form is intended to align the interests of employees with those of New Shareholders.
Cessation of Employment	If a Participant ceases employment with Pepper ANZ, specified disposal restrictions cease to apply.
Dividend and Voting Entitlements	Restricted Shares carry full dividend and voting entitlements.
Plan Limit	No Rights may be issued to, or exercised by a participant if to do so would contravene the Corporations Act, the ASX Listing Rules or any relief or waiver granted by ASIC or the ASX that binds the Company in making any offer under the TEP or otherwise in connection with the operation of the TEP. The number of Restricted Shares which may be granted under the TEP prior to approval of the plan rules by Shareholders following Listing will not exceed 5% of the total Issued Capital of the Company as at Listing, with the total issued capital at Listing being 439.5 million. The Board will seek re-approval of the TEP at the earlier of each 3 years or when this limit is reached.

6.7.5 Share Save Plan

The following table summarises the key terms of the Share Save Plan (**SSP**) which will be established to facilitate staff salary sacrificing cash remuneration in exchange for SSP Shares on an ongoing basis, with the purpose of supporting employee ownership, engagement and alignment, and reducing cash employment costs.

The SSP involves Rights which are an entitlement, when vested and exercised, to the value of a Share (or, if determined by the Board, to the price paid by the participant for the Right via salary sacrifice). That entitlement may be settled in cash or Shares at the Board's discretion.

The grants below will be made shortly after Listing, and thereafter, annually.

Term	Description
Eligibility	All employees are eligible to participate in the SSP, however it is anticipated that grants will only be made to Australian employees for the foreseeable future.
Number of Rights	The Board has discretion to determine the number of reserved Rights to be allocated to each participant each year.
Vesting	Reserved Rights and SSP Shares are subject to a 15 year service test. The number of SSP Shares that will vest from reserved Rights to each participant as salary sacrifice SSP Shares will be calculated by dividing the amount of their salary sacrifice for a particular financial quarter, by the VWAP of the Company's Shares for the financial quarter, and rounded down. The Board may, in its discretion, determine that other Shares (for example, Dividend Replacement Plan Shares, described below) will vest to a participant, such as in the case that the Board determines to offer "matching SSP Shares" to encourage participation, or make a bonus or award to the participant in the form of equity, or to defer part of short-term incentives in the form of equity, and the Board may determine that performance and or service conditions become attached to the Rights.

Term	Description
Settlement	The participant exercises a vested SSP Share by submitting an Exercise Notice before the end of the Term. On exercise the Board may settle the SSP Share in the form of an ordinary Share or cash to equivalent value. If specified in an Invitation, a salary sacrifice SSP Share may be settled at its acquisition price subject to Board discretion, which is the VWAP used to allocate the salary sacrifice SSP. This feature will not apply to top executives of the Company, and will not apply if such settlement would compromise the financial wellbeing of the Company.
Term and Lapsing	Rights and SSP Shares have a term of 15 years. Unvested reserve Rights lapse at the end of the financial year unless otherwise determined by the Board.
Amount Payable for Rights	Other than salary sacrifice, no amount is payable by a participant for the Rights.
Cessation of Employment	If a Participant ceases employment with Pepper ANZ, any unallocated salary sacrifice will be allocated as salary sacrifice SSP Shares or refunded via payroll. Unvested Rights will lapse and vested Rights will be automatically exercised.
Corporate Actions	The Board has discretion and will determine the impact of corporate events, including change of control, re-organisation of the capital of Pepper Money, any capital return, share consolidation or share rights (subject to applicable regulations and ASX Listing Rules).
Dividend and Voting Entitlements	When a dividend is declared, Dividend Replacement Plan Shares will vest to holders of vested SSP Shares based on the number of vested SSP Shares held on the record date, and the dividend (including franking credits) that the participant would have received had the SSP Shares been fully paid ordinary Shares divided by either the price specified for dividends reinvestment in respect of the relevant dividends if a dividend reinvestment plan is in operation or otherwise the VWAP for Shares traded on the ASX over the 10 trading days preceding the ex-dividend date. SSP Shares do not carry dividend or voting entitlements.
Plan Limit	No Rights may be issued to, or exercised by a participant if to do so would contravene the Corporations Act, the ASX Listing Rules or any relief or waiver granted by ASIC or the ASX that binds the Company in making any offer under the SSP or otherwise in connection with the operation of the SSP. The number of Rights which may be granted under the SSP prior to approval of the Plan Rules by Shareholders following Listing will not exceed 5% of the total Issued Capital of the Company as at Listing, with the total issued capital at Listing being 439.5 million. The Board will seek re-approval of the Plan at the earlier of each 3 years or when this limit is reached.

6.7.6 Short-term incentive plan

Pepper Money has established a short-term incentive plan (**STIP**) to create an annual reward opportunity for its employees.

The STIP is a target-based plan, with outcome metrics and weightings to be specified in the offer letter. Relevant metrics will be selected by the Board each year, and will relate to annual business plans, budgets, and annual progress towards the short and long-term implementation of Pepper Money's strategy. The Board may specify a gate condition which must be met before any metrics are assessed.

6.7.6.1 Terms of the STIP

The key terms of the STIP are as follows:

Term	Description
Eligibility	All employees, excluding non-executive Directors, as selected by the Board in its sole discretion, are eligible to participate in the STIP.

Term	Description
Measurement Period	A full financial year i.e. from 1 January to the following 31st December.
Settlement of Awards and Deferrals	Following audit of the Company's accounts each year, the Board will assess each outcome metric and relative to the applicable scale for each to determine the total award. The Offer may specify that Service Rights or Restricted Rights will be used to defer a portion of an award into equity interests, for the purposes of retention and risk management, as well as to give effect to clawback and malus clauses or policies as in force from time to time. Any portion of an Award that is not settled in Shares is to be settled in cash via payroll and subject to statutory deductions such as PAYG tax.
Cessation of Employment	Cessation of employment will not bring forward any payment, and the Board will determine the extent of awards, if any, that may be payable to participants that have previously ceased employment, at the end of the Measurement Period.
Corporate Actions	The Board has discretion and will determine the impact of corporate events, including change of control, re-organisation of the capital of Pepper Money, any capital return, share consolidation or share rights (subject to applicable regulations and ASX Listing Rules).
Inappropriate Benefits Clause	The STIP includes an inappropriate benefits clause that is intended to function as both a malus and clawback clause, in addition to covering fraud, misconduct, and any other actions that the Board deems resulted in harm to the Company's stakeholders. In such circumstances, the Board may determine that some or all unpaid award opportunities and unvested Rights are forfeited by a participant, if the benefit that would otherwise arise would be considered by the Board to be inappropriate.

6.7.6.2 STIP grants for CY2021

For CY2021, the following STIP grants are expected:

- Mario Rehayem: 84,166
- Therese McGrath: 28,968.

As noted above, the STIP is a target-based plan with the relevant metrics and weightings to be included in the offer letter. Before the targets are assessed, Mario and Therese must achieve a risk scorecard result for the period of at least "meets expectations", and at least 85%of budgeted Pepper Money NPAT (Pro Forma) must be achieved.

Of the CY2021 STIP award, 65% is to be paid in cash via payroll, subject to statutory deductions such as PAYG tax etc. and 35% is to be settled in the form of Restricted Rights subject to an exercise restriction until the end of CY2023. Any grant of deferred STIP Restricted Rights will be calculated based on the volume weighted average price of the Shares over 10 trading days following the release of CY2021 financial results to the ASX.

6.8 Corporate governance

This section explains the main policies and practices adopted by the Company. Details of the Company's key policies and practices and the charters for the Board and each of its Committees are available at www.pepper.com.au.

The Board monitors the operational and financial position and performance of the Company and oversees its business strategy including approving the strategic objectives, plans and budgets of the Company. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of the Company. In conducting the Company's business with these objectives, the Board seeks to ensure that the Company is properly managed to protect and enhance Shareholder interests, and that the Company, its Directors, officers and employees operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing the Company, including adopting relevant internal controls, risk management processes and corporate governance policies and practices that it believes are appropriate for the Company's business and that are designed to promote the responsible management and conduct of the Company.

The main policies and practices adopted by the Company, which will take effect from Listing, are summarised below. These policies and charters will be available on Pepper Money's website from Listing.

6.8.1 ASX Corporate Governance Council's principles and recommendations

The Company is seeking a listing on ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations (4th edition) (**ASX Recommendations**) for ASX listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, the Company will be required to provide a statement in its annual report or on its website disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where the Company does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it, and must also disclose what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

The Company intends to comply with all of the ASX Recommendations from the time of Listing, with the exception of ASX Recommendation 2.5, which provides that the Chairman of the Company should be an independent Director.

The Chairman, Michael Culhane, is not considered by the Board to be an independent Director given that he is a Shareholder Representative Director. Despite this, the Board believes that Michael is the most appropriate person to lead the Board as its Chairman given his role as CEO of the wider Pepper Global Group, as well as his expertise and global experience investing in the finance sector. The Board considers that Michael adds significant value to its deliberations and expects that he will continue to bring sound judgement to the Board's deliberations.

6.8.2 Board of Directors

The Board of Directors is comprised of the Chief Executive Officer and two Non-Executive Directors / Shareholder Representatives, and four independent Non-Executive Directors. Detailed biographies of the Directors are provided in Section 6.1.1.

The Board considers an independent Director to be a Non-Executive Director who is not a member of the Company's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgement. The Board will consider the materiality of any given relationship on a case-by-case basis and has adopted guidelines to assist in this regard. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

The Board Charter sets out guidelines adopted by the Board for the purpose of determining the independence of Directors in accordance with the ASX Recommendations and the Board has adopted a definition of independence that is based on that set out in the ASX Recommendations. The Board will have regard to quantitative and qualitative principles of materiality for the purpose of determining "independence" on a case-by-case basis.

Four of the seven members of the Board are Non-Executive Directors who are considered independent. The Board considers that each of Mike Cutter, Akiko Jackson, Justine Turnbull and Rob Verlander are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the exercise of the Director's unfettered and independent judgement and that each is able to fulfil the role of independent Director for the purpose of the ASX Recommendations.

Michael Culhane, Des O'Shea and Mario Rehayem are currently considered by the Board not to be independent.

Although Michael Culhane and Des O'Shea are not considered to be independent, the Board considers that both add significant value to deliberations with their considerable experience and skills. The Board believes that Michael Culhane and Des O'Shea will bring objective and independent judgement to the Board's deliberations.

The Directors believe that they are able to objectively analyse the issues before them in the best interests of all Shareholders and in accordance with their duties as Directors.

6.8.3 Board Charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which includes an overview of:

- Board composition and process; and
- The relationship and interaction between the Board and Management; and the authority delegated by the Board to Management and Board Committees.

The Board's role is to:

- Represent and serve the interests of Shareholders by overseeing and appraising the Company's strategies, policies and performance. This includes overseeing the financial and human resources the Company has in place to meet its objectives and reviewing Management performance;
- Protect and optimise the Company's performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- Set, review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards); and
- Ensure that Shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

The management function is conducted by, or under the supervision of, the Chief Executive Officer as directed by the Board (and by officers to whom the management function is properly delegated by the Chief Executive Officer).

The Board collectively, and individual Directors, may seek independent professional advice at the Company's expense on matters arising in the course of their Board and committee duties, subject to the approval of the Chairman.

6.8.4 Board skills matrix

The Company has adopted a Board skills matrix setting out the mix of skills that the Board currently has or is looking to achieve in its membership. The Board seeks to collectively represent a balance of skills. This includes industry knowledge and experience, technical skills, governance competencies and behavioural competencies.

The Board skills matrix provides that all Directors are expected to actively support the core values of the Company, and to work diligently to safeguard the long-term interests of the Company and its value to shareholders. All Directors must demonstrate a track record of ethical leadership and accountability, of operating successfully in an environment of challenge and collegiality, and of understanding commercial risk/return trade offs.

6.8.5 Board Committees

The Board may from time to time establish appropriate Committees to assist in the discharge of its responsibilities. The Board has established an Audit and Risk Committee and a Remuneration and Nomination Committee.

Other Committees may be established by the Board as and when required. Membership of Board Committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors. Under the Board Charter, Board Committee performance evaluations will occur annually.

Audit and Risk Committee

The Audit and Risk Committee will assist the Board in carrying out its accounting, auditing, and financial reporting responsibilities including:

- Overseeing the Company's relationship with the external auditor and the external audit function generally;
- Overseeing the Company's relationship with the internal auditor and the internal audit function generally;
- Overseeing the preparation of the financial statements and reports;
- Overseeing the Company's financial controls and systems; and
- Managing the process of identification and management of risk.

The Audit and Risk Committee's charter provides that the Committee must comprise of at least three members, only Non-Executive Directors and a majority of independent Directors. In addition, the Board

Charter provides that the chair of the Audit and Risk Committee must be an independent Director who is not the chair of the Board.

The current members of the Audit and Risk Committee are:

- Mike Cutter, Chair;
- Michael Culhane;
- Akiko Jackson;
- Rob Verlander; and
- Des O'Shea.

The composition of the Committee complies with Recommendation 4.1 of the ASX Recommendations.

All Non-Executive directors will be invited to all meetings of the Audit and Risk Committee. The Audit and Risk Committee may invite any executive director, executive, other staff member or external auditor to attend all or part of a meeting of the Committee.

The Chair of the Audit and Risk Committee is entitled to receive fees of $26,000 per annum. Each other member of the Audit and Risk Committee is entitled to receive fees of $13,000 per annum.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for final approval of matters relating to succession planning, nomination of Directors and Chief Executive Officer and remuneration of the Directors, the Chief Executive Officer and executives reporting to them.

The responsibilities of the Remuneration and Nomination Committee include:

- Assisting the Board to develop a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership;
- Reviewing and recommending to the Board the size and composition of the Board, including review of Board succession plans and the succession of the Chairman and the Chief Executive Officer, having regard to the objective that the Board comprise Directors with a broad range of skills, expertise and experience from a spectrum of backgrounds, including gender;
- Reviewing and recommending to the Board the criteria for Board membership, including the necessary and desirable competencies of Board members and the time expected to be devoted by Non-Executive Directors in relation to the Company's affairs;
- Reviewing and recommending to the Board the composition and membership of the Board, including making recommendations for the re-election of Directors, subject to the principle that a Committee Member must not be involved in making recommendations to the Board in respect of themselves;
- Assisting the Board as required to identify individuals who are qualified to become Board members;
- Assisting the Board as required in relation to the performance evaluation of the Board, its Committees and individual Directors, and in developing and implementing plans for identifying, assessing and enhancing Director competencies;
- Reviewing and making recommendations in relation to any corporate governance issues, as requested by the Board from time to time;
- Ensuring that an effective Director induction process is in place and regularly review its effectiveness and provide appropriate professional development opportunities for Directors;
- Assessing the Company's progress towards the achievement of the measurable objectives set under the Board Diversity and Inclusion Policy and any strategies aimed at achieving the objectives on an annual basis;
- Reporting to the Board recommending any changes to the measurable objectives set under the Diversity and Inclusion Policy, strategies or the way in which they are implemented; and
- In accordance with the Diversity and Inclusion Policy, on an annual basis, reviewing the relative proportion of women and men on the Board, in senior management positions and in the workforce at all levels of Pepper ANZ, and submitting a report to the Board, which outlines the Committee's findings or, if applicable, providing the Board with the Company's most recent indicators as required by the *Workplace Gender Equality Act 2012* (Cth).

The Remuneration and Nomination Committee's charter provides that the Committee must comprise at least three members, only Non-Executive Directors, a majority of independent Directors, and an independent chair who is not chair of the Board.

The current members of the Remuneration and Nomination Committee are:

- Justine Turnbull, Chair;
- Michael Culhane;
- Akiko Jackson;
- Rob Verlander; and
- Des O'Shea.

The composition of the Committee complies with Recommendation 2.1 of the ASX Recommendations.

The Chair of the Remuneration and Nomination Committee is entitled to receive fees of $26,000 per annum. Each other member of the Remuneration and Nomination Committee is entitled to receive fees of $13,000 per annum.

6.8.6 Diversity and Inclusion Policy

The Board has formally approved a Diversity and Inclusion Policy in order to address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative Management and leadership structure.

The Board will include in the annual report each year a summary of the Company's progress towards achieving the measurable objectives set out under the Diversity and Inclusion Policy for the year to which the annual report relates and details of the measurable objectives set under the Diversity and Inclusion Policy for the subsequent financial year.

6.8.7 Disclosure Policy

The Company places a high priority on communication with Shareholders and is aware of the obligations it will have, once listed, under the Corporations Act and the ASX Listing Rules, to keep the market fully informed of any information the Company becomes aware of concerning itself which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares.

The Company has adopted a Disclosure Policy which establishes procedures to ensure that Directors and employees are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

The Company is committed to observing its disclosure obligations under the ASX Listing Rules and Corporations Act. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and continuous disclosure announcements will be made available on the Company's website at www.pepper.com.au.

6.8.8 Securities Dealing Policy

The Company has adopted a Securities Dealing Policy which is intended to explain the types of dealings in securities that are prohibited under the Corporations Act and establish a best practice procedure for the buying and selling of securities that protects the Company and Directors and employees against the misuse of unpublished information which could materially affect the value of securities.

The policy applies to all Directors and senior management of the Company, as well as persons who work closely with senior management and/or who work in the finance or strategy team, IT staff who may have access to sensitive materials, and other employees who may come into possession of market sensitive information before the market becomes aware of such information. Also caught are companies or trusts controlled by any of the persons referred to above, and a spouse, child close relative or person financially depending on any of the persons referred to above.

The policy provides that relevant persons must not deal in Shares:

- When they are in possession of price-sensitive information;
- On a short-term trading basis; and
- During trading blackout periods (except in exceptional circumstances).

Otherwise, trading will only be permitted in trading windows or in all other periods by:

- Directors with prior written approval from the Chairman of the Board;
- The Chairman of the Board with prior written approval from the Board or the Chairman of the Audit and Risk Committee; and
- Senior Management with prior written approval from the Chief Executive Officer.

6.8.9 Risk Management Policy

The Board has adopted a policy provides a framework for how the Board identifies, analyses and monitors any risks that the Company is subject to. Responsibility for risk management is shared across the Company between:

- The Board;
- The Audit and Risk Committee;
- The Company's management; and
- The CEO and CFO.

It is the responsibility of the Audit and Risk Committee to report to the Board about the Company's adherence to policies and guidelines approved by the Board for the management of risks.

6.8.10 Anti-Bribery and Corruption Policy

The Company is committed to complying with all laws of the jurisdictions in which it operates, including those relating to bribery and corruption. The Anti-bribery and Corruption Policy sets out the responsibilities of the Company's personnel, including in their dealings with, and through, third parties. It sets out the types of conduct prohibited by the policy, the consequences of breaching the policy and the Company's procedures in implementing and monitoring compliance.

6.8.11 Whistleblower Policy

The Company is committed to the highest standards of conduct and ethical behaviour in all of its business activities and to promoting and supporting a culture of honest and ethical behaviour, corporate compliance and good corporate governance. This policy has been adopted to provide a safe and confidential environment where concerns can be raised by whistleblowers without fear of reprisal or detrimental treatment.

6.8.12 Code of Conduct

The Board is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal Code of Conduct that outlines how the Company expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards. All employees of the Company (including temporary employees, contractors and Directors) must comply with the Code of Conduct.

The Code of Conduct is designed to:

- Provide a benchmark for professional behaviour throughout the Company;
- Support the Company's business reputation and corporate image within the community; and
- Make Directors and employees aware of the consequences if they breach the policy.

6.8.13 Shareholder Communication Policy

The Company's aim is to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of the Company. In addition to the Company's continuous disclosure obligations, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time and the Company will communicate this information regularly to Shareholders and other stakeholders through a range of forums and publications.

All ASX announcements made to the market, including annual and half year financial results, will be posted on the Company's website at www.pepper.com.au as soon as practicable following their release by ASX. The full text of all notices of meetings and explanatory material, the Company's annual report and copies of all investor presentations made to analysts and media briefings will be posted on www.pepper.com.au.

6.8.14 Related-party transactions

Other than as disclosed in this Prospectus, Pepper Money is not party to any material related-party arrangements.

7 Details of the Offer

7.1 Description of the Offer

This Prospectus relates to an Initial Public Offering of 173.2 million New Shares by the Company at an Offer Price of $2.89 per Share. The total number of Shares on issue at Completion of the Offer will be 439.5 million and all Shares will rank equally with each other. In addition, 14.4 million New Shares will be issued to Pepper ANZ HoldCo in satisfaction of repayment of $41.6 million of the Shareholder Loan.

The Shares offered under this Prospectus will represent approximately 39.4% of the Shares on issue on Completion of the Offer.

At the Offer Price, the Offer will raise cash proceeds of $500.1 million.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.1.1 Structure of the Offer

The Offer comprises:

- the Broker Firm Offer, which is open only to Australian resident investors who are not Institutional Investors and who receive a firm allocation of Shares from their Broker;
- the Institutional Offer, which consists of an invitation to bid for Shares made to Institutional Investors in Australia, and a number of other eligible jurisdictions;
- the Employee Gift Offer, which is open only to Eligible Employees; and
- the Priority Offer, which is open to selected investors as agreed between the Company and the Joint Lead Managers.

The Management Offer is also made under this Prospectus. See Section 7.7 for more information.

No general public offer of Shares will be made under the Offer. The allocation of Shares between the Broker Firm Offer, the Institutional Offer and the Priority Offer will be determined by the Joint Lead Managers in agreement with the Company and the Financial Adviser, having regard to the allocation policy outlined in Sections 7.3.5, 7.4.2 and 7.6.

The Offer (with the exception of the Employee Gift Offer, shares issued to Management and shares issued to Pepper ANZ HoldCo) has been fully underwritten by the Joint Lead Managers. A summary of the Underwriting Agreement, including the events which would entitle the Joint Lead Managers to terminate the Underwriting Agreement, is set out in Section 9.5.6.

7.1.2 Purpose of the Offer

The purpose of the Offer is to:

- raise capital to partially repay the Bridge Facility and partially repay an existing Shareholder Loan and strengthen Pepper Money's balance sheet;
- provide the Company with access to equity capital markets, which it expects will give it added financial flexibility to pursue further growth opportunities;
- provide an opportunity for institutional and retail investors to become Shareholders in the Company;
- provide the Company with the benefits of an increased profile that arises from being a listed entity; and
- assist the Company in attracting and retaining quality staff.

7.1.3 Sources and uses of funds

The Offer is expected to raise gross cash proceeds of approximately $500.1 million. Assuming Completion of the Offer occurs on Thursday, 27 May 2021, this amount will be applied as follows:

- $474.7 million will be used by the Company to partially repay the Bridge Facility and partially repay the existing Shareholder Loan; and
- $25.4 million will be used to pay the Offer costs.

The following table details the Company's sources of funds (including the Offer) and the uses of those amounts, assuming Completion of the Offer occurs on Thursday, 27 May 2021.

Table 35: Sources and Uses of Funds

Sources	$ m	%
Cash proceeds received from the issue of New Shares by the Company under the Offer	500.1	100.0%
Total	**500.1**	**100.0%**

Uses	$ m	%
Partial repayment of the Bridge Facility	275	55.0%
Partial repayment of the Shareholder Loan	199.7	39.9%
Payment of the Offer costs	25.4	5.1%
Total	**500.1**	**100.0%**

The Board expects that Pepper Money will have sufficient cash flow from operations to meet its business needs and, together with the net proceeds of the primary component of the Offer, will have sufficient working capital to carry out its stated objectives.

7.1.4 Pro forma historical balance sheet

The Company's Pro Forma balance sheet following Completion of the Offer, including details of the Pro Forma adjustments, is set out in Section 4.

7.1.5 Capital structure

Pepper ANZ's indebtedness as the Prospectus Date, both before and adjusted to reflect the Offer, is set out in Section 4.

7.1.6 Shareholding structure

The details of the ownership of Shares immediately prior to the Offer, and on Completion of the Offer, are set out in the table below.

Table 36: Shareholding Structure[1]

	Shares held pre-Completion (m)		Shares issued/ acquired/(sold) (m)	Shares held on Completion	
Shareholder		%			%
Pepper ANZ HoldCo	251.9	100	14.4	266.3	60.59%
Management Shareholders[1]	–	–	4.6	4.6	1.05%
New Shareholders[2]	–	–	168.6	168.6	38.36%
Total	**251.9**	**100.0%**	**187.6**	**439.5**	**100.0%**

1. This represents the Shares issued to Management Shareholders in connection with the TopCo Buy-Back under the Management Offer.
2. This does not include Shares issued to Management Shareholders in connection with the TopCo Buy-Back under the Management Offer.

The above table does not include any Shares which may be acquired as part of the Offer by a certain number of Non-Executive Directors and members of Management who have indicated that they (either directly or via closely related parties) currently intend to acquire additional Shares as part of the Offer including the following Directors: Des O'Shea (Non Executive Director and Shareholder Representative) Mike Cutter, Akiko Jackson, Justine Turnbull and Rob Verlander. Based on these indications these Non-Executive Directors and members of Management have expressed an interest in acquiring in aggregate up to approximately 551,240 Shares in the Offer. The Company and Joint Lead Managers have absolute discretion regarding allocations of Shares under the Offer (refer to Sections 7.3.5, 7.4.2 and 7.6).

As at the Prospectus Date, 100% of the Shares are held by a Pepper ANZ HoldCo, a wholly-owned subsidiary of Pepper Global TopCo. As at the Prospectus Date, Pepper Global TopCo is owned 64.94% by KKR, 27.18% by Minority Investors,[2] 7.05% by members of Pepper Global Management[3] and 0.83% by members of Management or their related parties.

1. On Completion shares held includes shares issued pursuant to the exercise of options.
2. Minority Investors include Directors Des O'Shea who holds approximately ~0.18% of the TopCo Shares and Seumas Dawes who holds ~22% of the TopCo Shares.
3. Pepper Global Management includes Director Michael Culhane and his associated entities who hold ~3.60% of the TopCo Shares.

At Completion, the members of Management that hold TopCo Shares will have the opportunity to have all or a portion of their TopCo Shares acquired, on the basis that an amount equal to the funds received from the sale, are used to subscribe for Shares under the Management Offer. Consequently, following Completion of the Offer (and taking into account a simultaneous acquisition of certain TopCo Shares not related to Management), Pepper Global TopCo will be owned 65.60% by KKR, 27.26% by Minority Investors and 7.14% by members of Pepper Global Management or their related parties.

In the opinion of the Company, the free float of Shares at the time of Listing on the Official List will be no less than 20% of the Shares on issue at that time See Section 9.5.7 for more information.

The Company and Joint Lead Managers have absolute discretion regarding allocations of Shares under the Offer (refer to Sections 7.3.5, 7.4.2 and 7.6).

The Shares issued to Management Shareholders under the Management Offer are subject to voluntary escrow arrangements. Any additional Shares acquired by these Shareholders under Offer will not be subject to voluntary escrow arrangements (see Section 7.9 and Section 9.5.7 for more information).

7.1.7 Control implications of the Offer

Post-Listing, Pepper ANZ HoldCo will continue to hold an interest of approximately 60.6% in the Company and as such will control the Company (as defined in section 50AA of the Corporations Act).

Refer to Section 9.5.1 for the arrangements to apply between the Company and Pepper Global after Completion and Sections 5.2.15 and 5.2.24 for the risks associated with those arrangements, and with Pepper ANZ HoldCo retaining a controlling interest post-Completion.

7.1.8 Potential effect of the fundraising on the future of the Company

The Directors believe that on Completion of the Offer, the Company will have sufficient funds available to fulfil the purpose of the Offer and meet its stated business objectives.

7.2 Terms and Conditions of the Offer

Table 37: Terms and Conditions of the Offer

Topic	Summary
What is the type of security being offered?	Fully paid ordinary shares in the Company.
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to these, is set out in Section 7.13.
What is the consideration payable for each security being offered?	The Offer Price is $2.89 per Share.
What is the Offer Period?	The key dates, including details of the Offer Period, are set out in page 15. No Shares will be issued on the basis of this Prospectus later than the Expiry Date of 13 months after the Prospectus Date.
What are the cash proceeds to be raised?	Approximately $500.1 million will be raised under the Offer on the basis of 173.2 million New Shares being issued at the Offer Price if the Offer proceeds.
What is the minimum and maximum Application size under the Broker Firm Offer?	Applications under the Broker Firm Offer must be for a minimum of $2,000 worth of Shares. The Company, the Joint Lead Managers and the Financial Adviser reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for, in their absolute discretion. There is no maximum value of Shares that may be applied for under the Broker Firm Offer.

Topic	Summary
What is the minimum and maximum Application size under the Priority Offer?	Applications under the Priority Offer must be for a minimum of $2,000 worth of Shares. The Company, the Joint Lead Managers and the Financial Adviser reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for, in their absolute discretion.
What is the minimum and maximum Application size under the Employee Gift Offer?	Under the Employee Gift Offer, Eligible Employees will be offered the opportunity to apply for up to $1,000 worth of Shares at no cost.
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, the Institutional Offer and the Priority Offer will be determined by the Joint Lead Managers in agreement with the Company and the Financial Adviser, having regard to the allocation policy outlined in Sections 7.3.5, 7.4.2 and 7.6. With respect to the Broker Firm Offer, it will be a matter for the Brokers to determine how they allocate Shares among their eligible retail clients, and they (and not the Company, the Financial Adviser or the Joint Lead Managers) will be responsible for ensuring that eligible retail clients who have received an allocation from them receive the relevant Shares. The allocation of Shares under the Institutional Offer will be determined by the Joint Lead Managers in consultation with the Company and the Financial Adviser. The Broker Firm Offer, Institutional Offer and Priority Offer are not open to investors in the United States. The Employee Gift Offer will be offered to Eligible Employees only who will be offered the opportunity to apply for up to $1,000 worth of Shares at no cost. The allocation of Shares under the Employee Gift Offer is guaranteed to Eligible Employees. For further information on the: • Broker Firm Offer, see Section 7.3; • Institutional Offer, see Section 7.4; • Employee Gift Offer, see Section 7.5; • Priority Offer, see Section 7.6; and • Management Offer, see Section 7.7.
Will the securities be listed?	Yes. The Company has applied to ASX for admission to the Official List of, and quotation of its Shares by, ASX under the code "PPM". Completion of the Offer is conditional on ASX approving the application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act. The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

Topic	Summary
When are the securities expected to commence trading?	It is expected that trading of the Shares on ASX will commence on or about Tuesday, 25 May 2021, initially on a conditional and deferred settlement basis. Trades occurring on ASX before Settlement will be conditional on the issue of Shares, and Settlement occurring. Conditional trading will continue until the Company has advised ASX that: • settlement has occurred; and • the Company has issued Shares to Successful Applicants under the Offer, which is expected to be on or about Thursday, 27 May 2021. Normal settlement basis trading is expected to commence on or about Thursday, 27 May 2021. If Settlement has not occurred within 14 days (or such longer period as ASX allows) after the day Shares are first quoted on ASX, the Offer and confirmations of allocations will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect. It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk. The Company, the Joint Lead Managers, the Financial Adviser and the Pepper ANZ HoldCo disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them, by the Pepper Money Offer Information Line, by a Broker or otherwise.
Is the Offer underwritten?	Yes. The Joint Lead Managers have fully underwritten the Offer (with the exception of the Employee Gift Offer, Shares issued to Management and Shares issued to Pepper ANZ HoldCo). Details are provided in Section 7.8.
When will I receive confirmation of whether my Application has been successful?	It is expected that initial holding statements will be mailed to Successful Applicants by standard post on or about Friday, 28 May 2021. Refunds (without interest) to Applicants who make an Application and receive an allocation of Shares, the value of which is smaller than the amount of the Application Monies, will be made as soon as practicable after Completion of the Offer.
Are there any escrow arrangements?	Yes. Details are provided in Section 7.9 and Section 9.5.7.
Has any ASX confirmation or ASIC modification been obtained or been relied on?	Yes. Details are provided in Section 9.9.
Are there any taxation considerations?	Yes. Details are provided in Section 9.10.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.

Topic	Summary
What should you do with any enquiries?	See Section 9.5.6 for details of various fees payable by the Company to the Joint Lead Managers and by the Joint Lead Managers to certain Brokers. Please call the Pepper Money Offer Information Line on 1300 420 250 (inside Australia) or +61 2 8023 5477 (outside Australia) from 8.30am until 5.30pm Monday to Friday during the Offer Period. If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

7.3 Broker Firm Offer

7.3.1 Who can apply

The Broker Firm Offer is open to Australian-resident retail clients of Brokers who have a registered address in Australia and who have received an invitation from a Broker to acquire Shares under the Prospectus.

No general public offer of securities will be made under the Offer, other than through the ability of the public to apply through the Broker Firm Offer. Members of the public wishing to apply for Shares under the Offer must do so through a Broker with a firm allocation.

Investors should contact their Broker to determine whether they may be allocated Shares under the Broker Firm Offer. The Broker Firm Offer is not open to persons in the United States.

7.3.2 How to apply

Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus, or any supplementary or replacement prospectus. If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the Broker from whom you received your firm allocation. Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applications under the Broker Firm Offer must be for a minimum of $2,000 worth of Shares. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. The Company, the Joint Lead Managers and the Financial Adviser reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person. The Company may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer Application procedures or requirements, in its discretion in compliance with applicable laws.

Applicants under the Broker Firm Offer must lodge their Application Form and Application Monies with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation. Applicants under the Broker Firm Offer must not send their Application Forms to the Share Registry.

The Broker Firm Offer opens at 8.30am on Monday, 17 May 2021 and is expected to close at 5.30pm on Friday, 21 May 2021. The Company, the Joint Lead Managers and the Financial Adviser may elect to extend the Offer or any part of it, or accept late Applications either generally or in particular cases. Your Broker may impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Please contact your Broker for instructions.

7.3.3 Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with instructions from their Broker.

7.3.4 Application acceptances and Application Monies

An Application in the Broker Firm Offer is an offer by the Applicant to subscribe for Shares for all or any of the Application Amount specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus including any supplementary or replacement prospectus and the Application Form. To the maximum extent permitted by law, an Application by an Applicant under the Offer is irrevocable. Acceptance of an Application will give rise to a binding contract.

The Company reserves the right to decline any Application and all Applications in whole or in part, without giving any reason. Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Successful Applicants in the Broker Firm Offer will be allotted Shares at the Offer Price and will receive the number of Shares in respect of which their Application is accepted by the Company.

7.3.5 Allocation policy under the Broker Firm Offer

The allocation of firm stock to Brokers will be determined by the Joint Lead Managers, in consultation with the Financial Adviser and the Company. Shares which are allocated to Brokers for allocation to their Australian resident retail clients will be issued or transferred to the Applicants who have received a valid allocation of Shares from those Brokers. It will be a matter for the Brokers to determine how they allocate Shares among their eligible retail clients, and they (and not the Company, the Financial Adviser or the Joint Lead Managers) will be responsible for ensuring that eligible retail clients who have received an allocation from them receive the relevant Shares.

7.3.6 Announcement of final allocation policy in the Broker Firm Offer

Applicants under the Broker Firm Offer will be able to confirm their firm allocation through the Broker from whom they received their allocation.

However, if you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the Pepper Money Offer Information Line on 1300 420 250 (inside Australia) or +61 2 8023 5477 (outside Australia), or confirmed your firm allocation through a Broker.

7.4 Institutional Offer

7.4.1 Invitations to bid

The Institutional Offer invites certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares. The Joint Lead Managers separately advised Institutional Investors of the Application procedures for the Institutional Offer. Shares issued to Institutional Investors as part of the Institutional Offer will be issued under this Prospectus.

7.4.2 Allocation policy under the Institutional Offer

The allocation of Shares under the Institutional Offer will be determined by the Joint Lead Managers in consultation with the Company and the Financial Adviser. The Joint Lead Managers, in consultation with the Company and the Financial Adviser, have absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer will be advised of their allocation of Shares, if any, by the Joint Lead Managers. The allocation policy was influenced by a range of factors, including the following:

- number of Shares bid for by particular Applicants;
- the likelihood that particular Applicants will be long term Shareholders;
- the Company's desire for an informed and active trading market following Listing;
- the size and type of funds under management of particular Applicants;
- the investment style of particular Applicants;
- the timeliness of the bid by particular Applicants;
- the Company's desire to establish a broad spread of institutional Shareholders;
- anticipated level of demand under the Broker Firm Offer and Priority Offer; and
- any other factors that the Company and the Joint Lead Managers and the Financial Adviser considered appropriate.

7.5 Employee Gift Offer

7.5.1 Who may apply

The Employee Gift Offer is open to Eligible Employees in Australia and New Zealand.

A separate offer letter, together with access to this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Gift Offer. Eligible Employees should read the separate offer letter and this Prospectus carefully and in their entirety before deciding to apply under the Employee Gift Offer. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

7.5.2 How to apply

A separate offer letter, together with this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Gift Offer.

7.5.3 Payment methods

No payment is required for the Employee Gift Offer.

7.5.4 Allocation policy under the Employee Gift Offer

Applicants will receive a guaranteed allocation of up to $1,000 worth of Shares (rounded down to the nearest whole Share based on the Offer Price).

Unless the Board determines otherwise, the maximum number of Shares offered to part-time employees will be proportionate to the number of days they were working as at 31 March 2021.

7.6 Priority Offer

The Priority Offer is open to selected Australian-resident retail investors as agreed between the Company and the Joint Lead Managers. If you are a Priority Offer Applicant, you will receive a personalised invitation to apply for Shares in the Priority Offer.

Applicants under the Priority Offer may only apply for Shares online at www.peppermoneyoffer.com.au using the online Application Form and paying Application Monies via BPAY (no physical Application Form is needed when paying in this manner) or otherwise as agreed between the Company and the Joint Lead Managers. There are instructions set out on the online Application Form to help you complete it.

Applications under the Priority Offer must be for a minimum of $2,000 worth of Shares.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applicants under the Priority Offer must pay their Application Monies by BPAY in accordance with instructions on their personalised online Application Form or otherwise as agreed between the Company and the Joint Lead Managers. For more details, prospective Applicants should refer to www.peppermoneyoffer.com.au or contact the Pepper Money Offer Information Line on 1300 420 250 (within Australia) or +61 2 8023 5477 (outside Australia).

When completing your BPAY® payment, please make sure to use the specific biller code and unique Customer Reference Number (CRN) generated by the online Application Form. Application Monies paid via BPAY must be received by the Share Registry by no later than 5.30pm on Friday, 21 May 2021 and it is your responsibility to ensure that this occurs. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment. None of the Company or the Joint Lead Managers take any responsibility for any failure to receive Application Monies or payment by BPAY before the Priority Offer closes arising as a result of, among other things, delays in processing of payments by financial institutions.

The Company reserves the right to decline any Application in whole or in part, without giving any reason. Applicants under the Priority Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies provided by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down and any excess refunded (without interest).

If the amount of your Application Monies that you pay via BPAY is less than the amount specified on your online Application Form, you may be taken to have applied for such lower Australian dollar amount of Shares for which your cleared Application Monies will pay (and to have specified that amount on your online Application Form) or your Application may be rejected.

An Application in the Priority Offer is an offer by an Applicant to the Company to apply for Shares in the amount specified on the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including the conditions regarding quotation on ASX in Section 7.12, as well as any terms and conditions set out in any supplementary or replacement prospectus) and on the Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted by the Company and the Joint Lead Managers in respect of the full number of Shares specified on the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

The Company, in consultation with the Joint Lead Managers, has absolute discretion regarding the level of scaleback and the allocation of Shares under the Priority Offer. There is no assurance that any Applicant will be allocated any Shares, or the number of Shares for which the Applicant has applied.

7.7 Management Offer

The Management Offer is being made to certain members of Management or their related parties which hold TopCo Shares are a result of legacy arrangements. It has been agreed that the Management Shareholders will be given the opportunity to have all or a portion of their TopCo Shares bought-back on the basis that they will apply the funds received to apply for Shares under the Management Offer.

7.7.1 Who may apply

Only Management Shareholders may apply for Shares under the Management Offer.

7.7.2 How to apply

The Management Shareholders will receive a personalised Management Offer invitation. If a Management Shareholders wishes to apply for Shares, the Management Shareholders must follow the instructions on their personalised invitation.

7.7.3 How to pay

If a Management Shareholders accepts the invitation to subscribe for the Shares, the Shares will be issued following payment of the Offer Price.

7.8 Underwriting arrangements

The Offer (with the exception of the Employee Gift Offer, Shares issued to Management and Shares issued to Pepper ANZ HoldCo) is fully underwritten.

The Company and the Joint Lead Managers have entered into an Underwriting Agreement under which the Joint Lead Managers have been appointed as lead managers, bookrunners and underwriters of the Offer. The Joint Lead Managers have agreed, subject to certain conditions and termination events, to severally underwrite Applications for all Shares under the Offer.

The Underwriting Agreement is subject to a number of conditions precedent and sets out a number of circumstances under which the Joint Lead Managers may terminate the agreement and the underwriting obligations. A summary of certain terms of the agreement and underwriting arrangements, including the termination provisions, is provided in Section 9.5.6.

7.9 Voluntary escrow arrangements

Upon Completion of the Offer, Pepper ANZ HoldCo and the Management Shareholders will be subject to voluntary escrow arrangements (other than any Shares acquired by them, or entities related to them, under the Offer at the Offer Price).

The Escrowed Shareholders have entered into voluntary escrow arrangements which prevent them from disposing of their Escrowed Shares during the relevant escrow period subject to limited exceptions).

See Section 9.5.7 for a summary of the terms of the voluntary escrow arrangements and the limited exceptions that permit dealing in the escrowed Shares during the escrow period.

7.10 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released to US wire services or distributed by you in the United States and may only be distributed by the Joint Lead Managers to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold, directly or indirectly, in the United States. The Shares will be offered and sold only outside the United States in "offshore transactions" as defined in and in reliance on Regulations S under the US Securities Act.

Each Applicant in the Broker Firm Offer, and each Institutional Investor to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities law of any state of the United States and may not be offered or sold, directly or indirectly, in the United States;
- it is not in the United States;
- it has not sent, and will not send, the Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States.

Please refer to Section 9.15 for further details in relation to applicable selling restrictions.

7.11 Discretion regarding the Offer

The Company may withdraw the Offer at any time before the issue of Shares to Successful Applicants under the Broker Firm Offer and Priority Offer and Institutional Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

The Company, the Joint Lead Managers and the Financial Adviser also reserve the right to extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant fewer Shares than the amount applied or bid for.

7.12 ASX listing, registers and holding statements and conditional and deferred settlement basis trading

7.12.1 Application to ASX for listing of the Company and quotation of Shares

The Company will apply to ASX within 7 days of the prospectus Date for admission to the Official List and quotation of the Shares on ASX. The Company's ASX code is expected to be "PPM".

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

If permission is not granted for the official quotation of the Shares on ASX within three months after the date of this Prospectus (or any later date permitted by law), all Application Monies received by the Company will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Upon Listing, the Company will be required to comply with ASX Listing Rules, subject to any waivers obtained by the Company from time to time.

7.12.2 CHESS and Issuer Sponsored Holdings

The Company will apply to participate in ASX's Clearing House Electronic Subregister System (**CHESS**) and will comply with ASX Listing Rules and ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, being an electronic CHESS subregister or an issuer sponsored subregister.

For all Successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (**HIN**) for CHESS holders or, where applicable, the Securityholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.12.3 Conditional and deferred settlement basis trading and selling Shares on market

It is expected that trading of the Shares on ASX (on a conditional and deferred settlement basis) will commence on or about Tuesday, 25 May 2021.

The contracts formed on acceptance of Applications will be conditional on Settlement and the issue of Shares occurring. Trades occurring on ASX before Settlement and the issue of Shares occurring will be conditional on Settlement and the issue of Shares occurring.

Conditional trading will continue until the Company has advised ASX that Settlement, and the issue of Shares has occurred, which is expected to be on or about Thursday, 27 May 2021. Unconditional and normal settlement basis trading is expected to commence on or about Thursday, 27 May 2021.

If Settlement has not occurred within 14 days (or such longer period as ASX allows) after the day Shares are first quoted on ASX, the Offer and all contracts arising on acceptance of the Offer will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect.

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If you sell Shares before receiving a holding statement, you do so at your own risk. The Company, the Directors, the Joint Lead Managers, the Share Registry, the Financial Adviser and the Shareholders disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the Pepper Money Offer Information Line or confirmed your firm allocation through a Broker.

7.13 Summary of rights and liabilities attaching to Shares and other material provisions of the Constitution

7.13.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law. A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the Official List.

7.13.2 Rights attaching to Shares

The rights attaching to the Shares are set out in the Constitution and are, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law. The principal rights, liabilities and obligations of the Shareholders are summarised below.

Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (unless a Shareholder has appointed more than one proxy) and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chair does not have a casting vote, in addition to any deliberative vote.

Dividends

The Board may pay any interim, special or final dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

Issue of further Shares

The Board may (subject to the Constitution, the ASX Listing Rules and the Corporations Act) issue, allot or grant options for, or otherwise dispose of, Shares in the company on such terms as the Board decides.

Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. The rights attached to any class of Shares may, unless their terms of issue state otherwise, be varied by:

- consent in writing of the holders of at least 75% of the issued Shares in the particular class; or
- a special resolution passed at a separate meeting of the holders of Shares in that class.

Dividend reinvestment plan

The Constitution contains a provision allowing Directors, on the terms and conditions they think fit, to implement, amend, suspend or terminate a dividend reinvestment plan (under which any Shareholder or any class of Shareholders may elect that the dividends payable by the Company be reinvested by a subscription for Shares in the Company).

Transfer of shares

Subject to the Constitution and to any restrictions attached to a member's Shares, Shares may be transferred by a proper ASTC Transfer or a written instrument of transfer in any usual form or in any other form that the Directors approve. The Board may refuse to register a transfer of Shares or apply a holding lock to prevent a Proper ASTC Transfer permitted under the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

General meeting and notices

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. The Company must give at least 21 days' written notice of a general meeting.

Winding up

Subject to the Constitution, the Corporations Act and any preferential rights or restrictions attaching to any class or classes of Shares, Shareholders will be entitled on a winding up to a share in any surplus assets of the Company in proportion to the Shares held by them (irrespective of the amounts paid or credited as paid on the Shares), less any amounts which remain unpaid on these Shares at the time of distribution. If the Company is wound up, the liquidator may with the sanction of a special resolution divide the whole or part of the Company's property among Shareholders and decide how the division is to be carried out as between Shareholders or different classes of Shareholders.

Non-marketable parcels

In accordance with the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, and provided that the procedures set out in the Constitution are followed, the Company may sell the Shares of a Shareholder who holds less than a marketable parcel of those Shares.

Proportional takeover provisions

The Constitution requires Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless they are renewed by Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

Directors – appointment and removal

Under the Constitution, the Board is comprised of a minimum of 3 Directors and a maximum of 9, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at general meetings of the Company.

No Director (excluding the managing Director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint a Director in addition to the existing Directors or to fill a casual vacancy on the Board, and that Director (apart from the managing Director) will then hold office until the next annual general meeting following their appointment.

Directors – voting

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present at the meeting and entitled to vote on the matter. If the votes are equal on a proposed resolution, the chair does not have a casting vote.

Directors – remuneration

Directors may be paid for travel and other expenses incurred in attending to the Company's affairs, including attending and returning from meetings of Directors or Committees or general meetings. Any Director who devotes special attention to the business of the Company or who performs services which, in the opinion of the Board, are outside the scope of the ordinary duties of a Director may be remunerated for the services (as determined by the Board).

Powers and duties of Directors

The business and affairs of the Company are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within the Company's power and the powers that are not required by law or by the Constitution to be exercised by the Company in general meeting.

Preference shares

The Company may issue preference Shares, including preference Shares which are, or at the option of the Company or holder are, liable to be redeemed or convertible to ordinary shares. The rights attaching to preference Shares are those set out in the Constitution unless other rights have been approved by special resolution of the Company.

Officers' indemnity

The Company, to the maximum extent permitted by law, may decide to indemnify each person who is a current or former Director, executive officer, officer, employee or auditor of the Company, and such other officers or former officers of the Company or its related bodies corporate as the Directors in each case determine, against any losses or liability incurred by that person as an officer or auditor of the Company or of a related body corporate of the Company including, but not limited to, a liability for negligence or for legal costs.

The Company, to the extent permitted by law, may enter into and pay premiums on a contract insuring any person who is a current or former Director, executive officer, officer, employee or auditor of the Company, and such other officers or former officers of the Company or its related bodies corporate as the Directors in each case determine, against any liability incurred by the person as an officer or auditor of the Company or of a related body corporate of the Company including, but not limited to, a liability for negligence or for legal costs.

The Company may enter into contracts with any person who is a current or former Director, executive officer, officer, employee or auditor of the Company, and such other officers or former officers of the Company or its related bodies corporate as the Directors in each case determine, to provide access to the books of the Company conferred by the Corporations Act or otherwise by law.

Amendment

The Constitution may be amended only by a special resolution which is signed by at least 75% of Directors entitled to vote on the resolution, the number of which is not less than a quorum at a Directors meeting.

7.14 Acknowledgements

Each Applicant under the Offer will be deemed to have:

- agreed to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement prospectus) including or accompanied by the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant(s), if a natural person, is/are over 18 years of age;
- acknowledged that, once the Company or a Broker receives an Application Form, it may not be withdrawn;
- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised the Company and the Joint Lead Managers and their respective officers or agents, to do anything on behalf of the Applicant(s) necessary for Shares to be allocated to the Applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;

- acknowledged that, in some circumstances, the Company may not pay dividends, or that any dividends paid may not be franked;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Shares are suitable for the Applicant(s), given the investment objectives, financial situation or particular needs (including financial and tax issues) of the Applicant(s);
- declared that the Applicant(s) is/are a resident of Australia or New Zealand (except as applicable to the Institutional Offer);
- acknowledged and agreed that the Offer may be withdrawn by the Company or may otherwise not proceed in the circumstances described in this Prospectus; and
- acknowledged and agreed that if Listing does not occur for any reason, the Offer will not proceed.

Each Applicant in the Broker Firm Offer and Priority Offer, and each person to whom the Institutional Offer has been made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the Securities Act or the securities laws in accordance with Securities Act registration requirements or of any state of the United States and may not be offered, sold or resold, pledged or transferred in the United States, except in accordance with Securities Act regulation requirements or in a transaction exempt from, or not subject to, registration under the Securities Act and any other applicable state securities laws;
- it is not in the United States;
- it has not sent and will not send the Prospectus or any other material relating to the Offer to any person in the United States;
- it is purchasing the Shares in an offshore transaction meeting the requirements of Regulation S; and
- it will not offer or sell the Shares in any other jurisdiction outside Australia except in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

8 Investigating Accountant's Report

Deloitte.

Deloitte Corporate Finance Pty Limited
ACN 003 833 127
AFSL 241457

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The Directors
Pepper Money Limited
27/177 Pacific Hwy
North Sydney
NSW 2060

7 May 2021

Dear Directors,

INVESTIGATING ACCOUNTANT'S REPORT ON HISTORICAL AND FORECAST FINANCIAL INFORMATION OF PEPPER MONEY LIMITED AND THE FINANCIAL SERVICES GUIDE

Introduction

This report has been prepared at the request of the Directors of Pepper Money Limited (ACN 094 317 665) (the **Company** or **Pepper Money**) for inclusion in the prospectus to be issued by the Company (the **Prospectus**) in respect of the initial public offering of fully paid ordinary shares in the Company (the **Offer**) and listing of the Company on the Australian Securities Exchange.

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence under the Corporations Act 2001 (Cth) for the issue of this report.

References to the Company and other terminology used in this report, being the Investigating Accountant's Report, have the same meaning as defined in the glossary of the Prospectus.

Scope

Pepper Money Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company to review the historical financial information of the Company, being:

- The historical income statements of Pepper ANZ for the years ended 31 December 2018 (**CY2018**), 31 December 2019 (**CY2019**) and 31 December 2020 (**CY2020**);
- The historical cash flow statements of Pepper ANZ for CY2018, CY2019 and CY2020; and
- The statutory balance sheet of Pepper Money as at 31 December 2020;

as set out in Section 4.3, 4.5 and 4.6 of the Prospectus (together, the **Pepper Money Financial Information**).

The Pepper Money Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards (**AAS**) and the Company's adopted accounting policies.

The Pepper Money Financial Information has been derived from the Pepper ANZ financial statements which are prepared, on a carve out basis, from the Pepper Money statutory financial statements for the years ended CY2018, CY2019 and CY2020. The Pepper ANZ financial statements for CY2018, CY2019 and CY2020 have been audited by Deloitte Touche Tohmatsu in accordance with Australian Auditing Standards. Deloitte Touche Tohmatsu issued unmodified audit opinions in respect of those financial statements.

The Pepper Money Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by AAS and other

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mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Pepper Money Pro Forma Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company to review the pro forma historical financial information of the Company, being:

- the Pro Forma historical income statements of Pepper ANZ for CY2018, CY2019 and CY2020;
- the Pro Forma historical cash flow statements of Pepper ANZ for CY2018, CY2019 and CY2020; and
- the Pro Forma historical balance sheet of Pepper ANZ as at 31 December 2020;

as set out in Section 4.3, 4.5 and 4.6 of the Prospectus (together, **the Pepper Money Pro Forma Financial Information**).

The Pepper Money Pro Forma Historical Financial Information has been derived Pepper Money Financial Information, after adjusting for the effects of pro forma adjustments described in Section 4.2.3, 4.3.1, 4.5.2 and 4.6.2 of the Prospectus (the **Pro Forma Adjustments**).

The stated basis of preparation is the recognition and measurement principles contained in AAS applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in Section 4.3 of the Prospectus, as if those events or transactions had occurred as at the date of the historical financial information. Due to its nature, the Pepper Money Pro Forma Financial Information does not represent the Company's actual or prospective financial position, financial performance, and/or cash flows.

Forecast Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of the Company to review:

- the Pepper ANZ forecast income statement and the Pepper ANZ forecast cash flow statement for the period ending 31 December 2021 as set out in Section 4.3, 4.5 and 4.6 of the Prospectus (the **Pepper Money Forecast Financial Information**). The Directors' Best Estimate Assumptions underlying the Pepper Money Forecast Financial Information are described in Section 4.8.2 of the Prospectus. The stated basis of preparation used in the preparation of the Pepper Money Forecast Financial Information is in the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies; and

- The Pepper ANZ forecast Pro Forma income statement and the Pepper ANZ forecast Pro Forma cash flow statement for the period ending 31 December 2021 (the **Pepper Money Pro Forma Forecast Financial Information**). As set out in Section 4.2.4 of the Prospectus, the Pro Forma Forecast Financial Information has been derived from the Pepper Money Financial Information, after adjusting for the effects of the Pro Forma Adjustments. The stated basis of preparation used in the preparation of the Pro Forma Forecast Financial Information is in the recognition and measurement principles contained in AAS applied to the Pepper Money Financial Information and the events and transactions to which the Pro Forma Adjustments relate, as if those events or transactions had occurred as at 1 January 2021. Due to the nature of the Pro Forecast Financial Information, it does not represent the Company's actual prospective financial performance and/or cashflows for the year ending 31 December 2021;

The Pepper Money Forecast Financial Information and Pepper Money Pro Forma Forecast Financial Information are together referred to as the **Forecast Financial Information**.

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The Forecast Financial Information has been prepared by Management and adopted by the Directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the year ending 31 December 2021. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variation may be material.

The Directors' Best Estimate Assumptions on which the Forecast Financial Information is based relate to future events and / or transactions that Management expect to occur and actions that Management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the assumptions on which the Forecast Financial Information is based, however such evidence is generally future orientated and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Opinion

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Company which are detailed in the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly prospective investors should have regard to the investment risks and sensitivities set out in Section 5 and 4.9 and of the Prospectus. The sensitivity analysis set out in Section 4.9 of the Prospectus demonstrates the impacts on the Forecast Financial Information of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance which may be achievable. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Directors' Responsibility

The Directors are responsible for:

- the preparation and presentation of the Pepper Money Financial Information and the Pepper Money Pro Forma Financial Information, including the selection and determination of pro forma adjustments made to the Pepper Money Financial Information and included in the Pepper Money Pro forma Financial Information;
- the preparation of the Forecast Financial Information, including the Directors' Best Estimate Assumptions underlying the Forecast Financial Information and the selection and determination of the pro forma adjustments made to the Pepper Money Forecast Financial Information and included in the Pepper Money Pro Forma Forecast Financial Information; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Pepper Money Financial Information, the Pepper Money Pro forma Financial Information and the Forecast Financial Information are free from material misstatement, whether due to fraud or error.

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Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Pepper Money Financial Information, the Pepper Money Pro forma Financial Information, the Pepper Money Forecast Financial Information and the Pepper Money Pro Forma Forecast Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagement (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

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

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

Pepper Money Financial Information

- a review of the derivation of the Pepper Money Financial Information from the audited financial statements of Pepper ANZ which are prepared, on a carve out basis, from the Pepper Money statutory financial statements for the years ended for the years ending CY2018, CY2019 and CY2020;
- analytical procedures on the audited Pepper Money Financial Information;
- a review of the application of the statement basis of preparation, as described in the Prospectus, to the Pepper Money Financial Information for consistency of application of the period;
- a review of the work papers, accounting records and other documents of the Company and the work papers of its auditors; and
- enquiry of the Directors, Management and other in relation to the Pepper Money Financial Information.

Pepper Money Pro Forma Financial Information

- consideration and review of work papers, accounting records and other documents, including those dealing with the derivation of Pepper Money Financial Information from its audited financial statements which are prepared, on a carve out basis, from the Pepper Money statutory financial statements for the years ended for CY2018, CY2019 and CY2020;
- consideration of the appropriateness of Pro forma Adjustments;
- enquiry of Directors, Management, personnel and advisors;
- the performance of analytical procedures applied to the Pepper Money Pro forma Financial Information;
- a review of work papers, accounting records and other documents of the Company and its auditors; and
- a review of the accounting policies adopted and used by the Company over the period for consistency of application.

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Forecast Financial Information

- enquiries, including discussions with Management and Directors of the factors considered in determining the assumptions;
- analytical and other review procedures we considered necessary including examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecast Financial Information;
- review of the accounting policies adopted and used in the preparation of the Forecast Financial Information; and
- consideration of the Pro forma Adjustments applied to the Pepper Money Forecast Financial Information in preparing the Pepper Money Pro forma Forecast Financial Information.

Conclusions

Pepper Money Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pepper Money Financial Information, as described in section 4.3, 4.5 and 4.6 of the Prospectus, and comprising:

- The historical income statements of Pepper ANZ for the years ended CY2018, CY2019 and CY2020;
- The historical cash flow statements of Pepper ANZ for CY2018, CY2019 and CY2020; and
- The historical balance sheet of Pepper ANZ as at 31 December 2020,

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4.2.3 of the Prospectus.

Pepper Money Pro Forma Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pepper Money Pro Forma Financial Information is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Section 4.2.4 of the Prospectus.

Pepper Money Forecast Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' Best Estimate Assumptions used in the preparation of the Pepper Money Forecast Financial Information do not provide reasonable grounds for the Forecasts Financial Information

(ii) in all material respects, the Pepper Money Forecast Financial Information is not:

a. prepared on the basis of the Directors' Best Estimate Assumptions as described in Section 4.8.2 of the Prospectus; and
b. presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in AAS;

(iii) the Pepper Money Forecast Financial Information itself is unreasonable.

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Pepper Money Pro Forma Forecast Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' Best Estimate Assumptions used in the preparation of the Pepper Money Pro forma Forecast Financial Information do not provide reasonable grounds for the Pro forma Forecasts Information;

(ii) in all material respects, the Pepper Money Pro Forma Forecast Financial Information is not:

  a. prepared on the basis of the Directors' Best Estimate Assumptions as described in Section 4.8.2 of the Prospectus;
  b. presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in AAS, applied to the Pepper Money Pro Forma Forecast Financial Information and the Pro forma Adjustments as if those adjustments had occurred as at 1 January 2021;

(iii) the Pepper Money Pro Forma Forecast Financial Information is unreasonable.

Restrictions on Use

Without modifying our conclusions, we draw attention to Section 4.2 of the Prospectus, which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, the Investigating Accountant's Report may not be suitable for use for another purpose.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

Disclosure of Interest

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Offer other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the external auditor of the Company.

Yours sincerely

DELOITTTE CORPORATE FINANCE PTY LIMITED

Ian Turner Authorised Representative (AFSL number 241457) AR number 461016	Sarah Avis Authorised Representative (AFSL number 241457) AR number 468673

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March 2020

Financial Services Guide (FSG)

What is an FSG?

An FSG is designed to provide information about the supply of financial services to you.

Deloitte Corporate Finance Pty Limited (**DCF**) (AFSL 241457) provides this FSG to you, so you know how we are remunerated and who to contact if you have a complaint.

Who supplies the financial services?

We provide this FSG to you where you engage us to act on your behalf when providing financial services.

Alternatively, we may provide this FSG to you because our client has provided financial services to you that we delivered to them.

The person who provides the financial service to you is our Authorised Representative (**AR**) and DCF authorises the AR to distribute this FSG. Their AR number and contact details are in the document that accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds, to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

General financial product advice

We provide general advice when we have not taken into account your personal objectives, financial situation or needs, and you would not expect us to have done so. In this situation, you should consider whether our general advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If we provide advice to you in connection with the acquisition of a financial product, you should read the relevant offer document carefully before making any decision about whether to acquire that product.

Personal financial product advice

When we give you advice that takes into account your objectives, financial situation and needs, we will give you a Statement of Advice to help you understand our advice, so you can decide whether to rely on it.

How are we remunerated?

Our fees are usually determined on a fixed fee or time cost basis plus reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us.

Clients may request particulars of our remuneration within a reasonable time after being given this FSG.

Apart from these fees, DCF, our directors and officers, and any related bodies corporate, affiliates or associates, and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary, and, while eligible for annual salary increases and bonuses based on overall performance, they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

The Deloitte member firm in Australia (Deloitte Touche Tohmatsu) controls DCF. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We, and other entities related to Deloitte Touche Tohmatsu, do not have any formal associations or relationships with any entities that are issuers of financial products. However, we may provide professional services to issuers of financial products in the ordinary course of business.

What should you do if you have a complaint?

Please contact us about a concern:

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Phone: +61 2 9322 7000

If an issue is not resolved to your satisfaction, you can lodge a dispute with the Australian Financial Complaints Authority (**AFCA**). AFCA provides fair and independent financial services dispute resolution free to consumers.

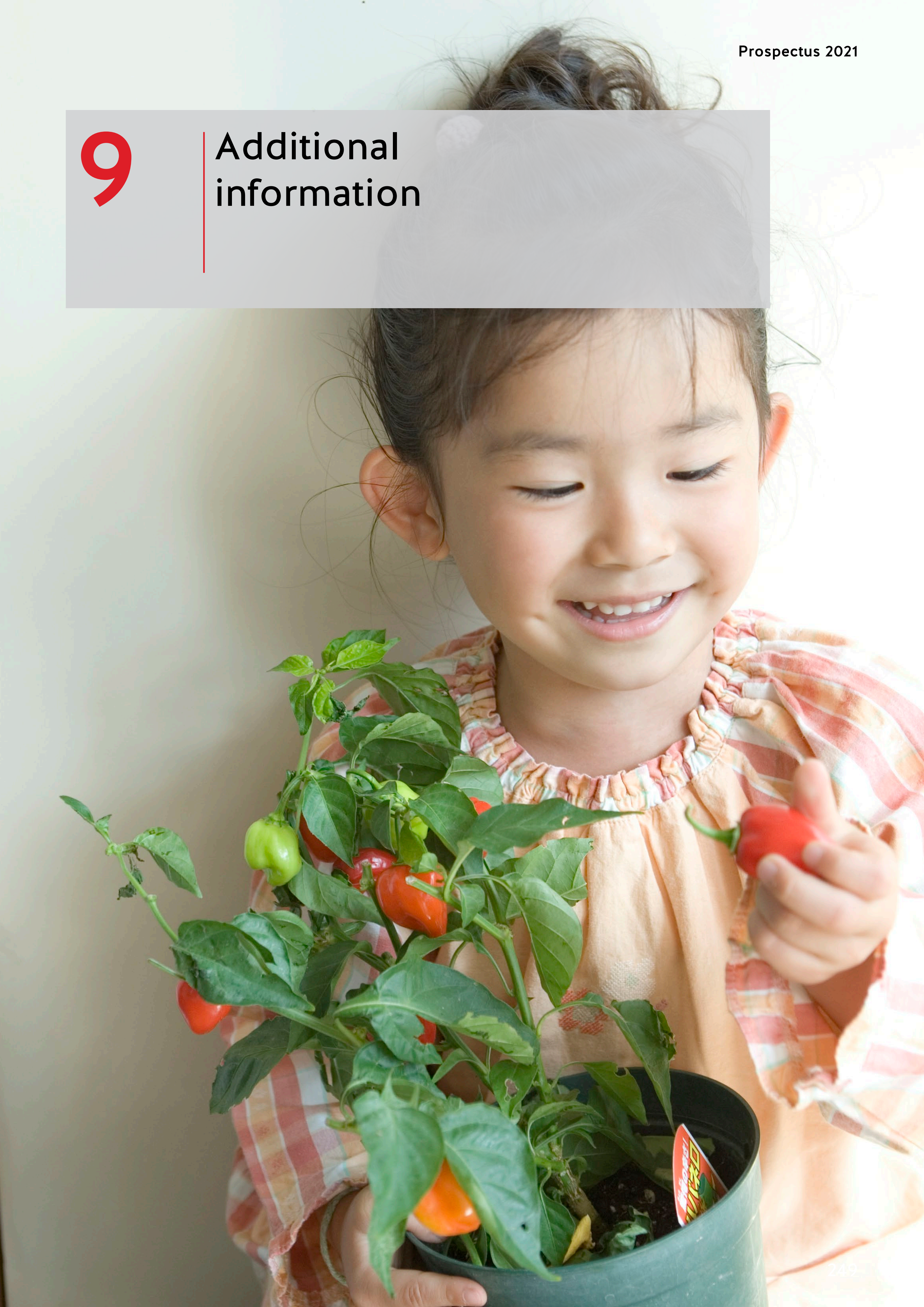
www.afca.org.au
1800 931 678 (free call)
Australian Financial Complaints Authority Limited
GPO Box 3 Melbourne VIC 3001

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services we provide. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL number 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000
Member of Deloitte Touche Tohmatsu Limited
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity.

9 Additional information



9.1 Registration

Pepper Money was registered in New South Wales on 30 August 2000.

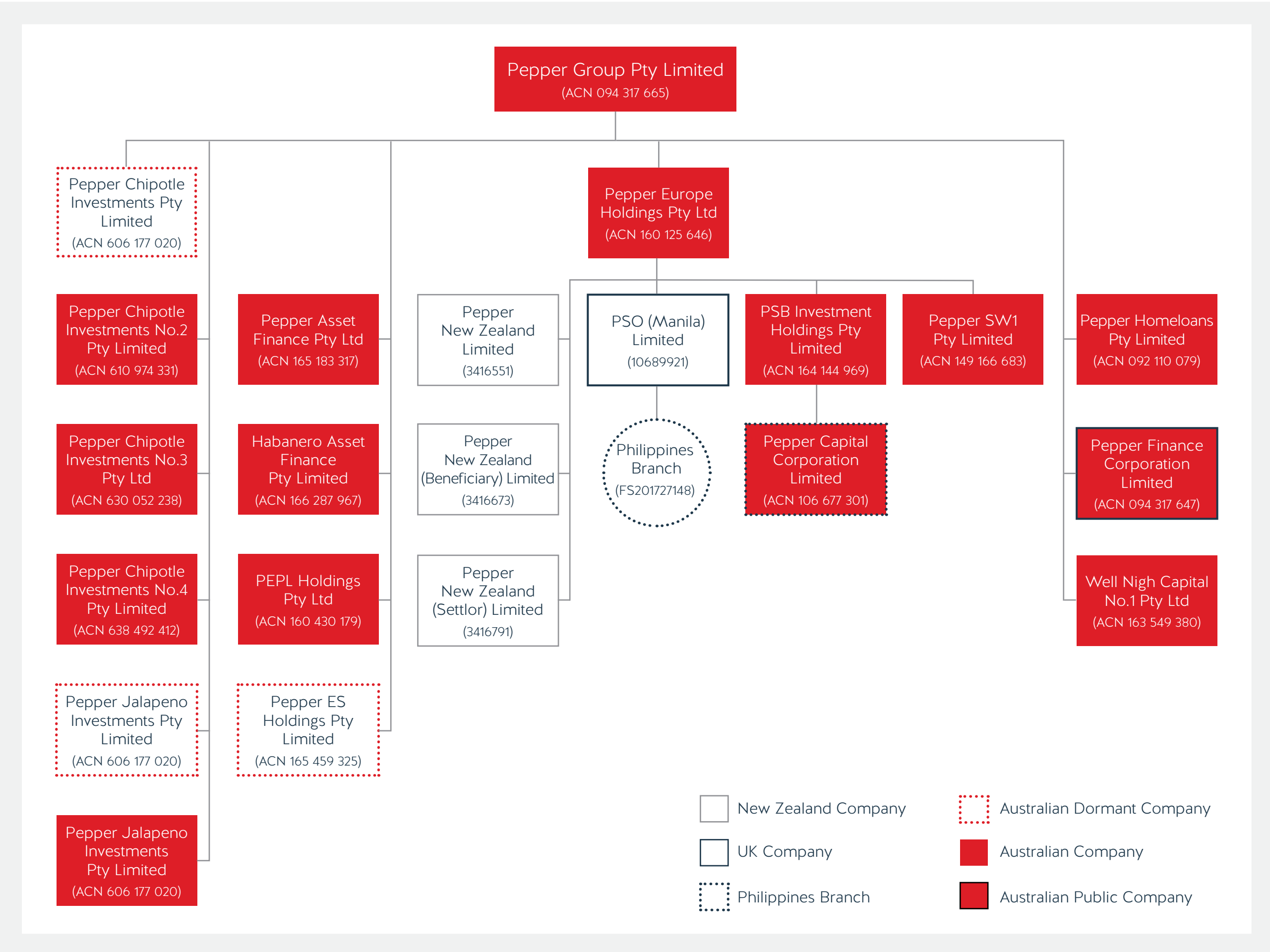
9.2 Company tax status and financial year

The Company will be subject to tax at the Australian corporate tax rate.

The Company's financial year for taxation purposes ends on 31 December annually.

9.3 Corporate structure

The following diagram shows the entities in the corporate structure of Pepper ANZ after taking into account the Restructure.



Each of Pepper ANZ entities listed above undertakes the business of Pepper Money as set out in this Prospectus (except for Pepper Chipotle Investments Pty Limited (ACN 606 177 020), Pepper Jalapeno Investments No. 2 Pty Limited (ACN 610 974 573) and Pepper ES Holdings Pty Limited (ACN 165 459 325) which are dormant). Pepper New Zealand Limited (3416551), Pepper New Zealand (Beneficiary) Limited (3416673) and Pepper New Zealand (Settlor) Limited (3416791) are incorporated in New Zealand. PSO (Manila) Limited (10689921) is incorporated in England and the Philippines Branch (FS201727148) is established in the Philippines. All other subsidiaries are incorporated in Australia.

9.4 Restructure

Before lodgement of the Prospectus with ASIC, Pepper ANZ was reorganised into a separate corporate group within the broader Pepper Global Group as part of a wider reorganisation of companies ultimately owned by Pepper Global Topco (**Restructure**). The Restructure involved various steps, including:

- Pepper Global TopCo was established as the new ultimate parent company of Pepper Global and the Company;
- Pepper ANZ HoldCo, a wholly-owned subsidiary of Pepper Global TopCo, became the new direct holding company of Pepper Money, holding 100% of the Shares in Pepper Money;
- subsidiaries, assets and liabilities were transferred between Pepper ANZ and Pepper Global to facilitate the separation of Pepper ANZ from Pepper Global; and
- with the exception of the interest-bearing note referred to in paragraph 9.5.2, all intercompany loans between Pepper Global and Pepper ANZ that arose in connection with, or as a result of, the Restructure were eliminated or discharged.

As a result of the Restructure, Pepper ANZ has the corporate structure set out in paragraph 9.3 above and will be capable of operating on a standalone basis from completion of the IPO (subject to any ongoing contractual arrangements between Pepper ANZ and Pepper Global described in this Prospectus).

9.5 Material contracts

Along with the Underwriting Agreement, summarised below, the Directors consider that there are a number of contracts which are significant or material to Pepper ANZ or of such a nature that an investor may wish to have details of them when making an assessment of whether to apply for Shares. Summaries for material contracts set out in this Prospectus (including the summary of the Underwriting Agreement set out below), do not purport to be complete and are qualified by the text of the contracts themselves.

9.5.1 Separation Agreements

9.5.1.1 Separation Deed

Pepper Global TopCo and Pepper Money entered into a Separation Deed, which sets out certain key provisions relating to the Restructure, and the parties' continuing arrangements following Completion.

Purpose	The IPO Separation Deed between Pepper Global TopCo and Pepper Money sets out certain terms governing the separation of Pepper Global and Pepper ANZ.
Separation principles	The fundamental separation principles established under the deed, is that from Completion (**Separation Principles**): • **Independent Operations:** Pepper ANZ and Pepper Global will operate independently; • **Economic benefit and risk:** Pepper ANZ will have the entire economic benefit, and the entire economic risk, of the Pepper ANZ business (and none of Pepper Global's economic benefit or risk) (and vice versa for Pepper Global); and • **Wrong pockets:** Assets owned or controlled by Pepper Global which are necessary for, or used by, Pepper ANZ to operate its business, or liabilities in relation to the business of Pepper ANZ, are to be held by or transferred to Pepper ANZ (and vice versa for Pepper Global).
Restructure Warranty	Pepper Global TopCo makes certain representations and warranties to Pepper Money including, for example, that the Restructure was effectively implemented to, that all necessary or material consents for the Restructure and IPO have been obtained and that there are no outstanding inter-entity balances between Pepper ANZ and Pepper Global that arose in connection with or as a result of the Restructure (other than the Shareholder Loan see Section 9.5.2).
Wrong pockets	If either Pepper Money or Pepper Global TopCo becomes aware of an asset that is required by either Pepper ANZ or Pepper Global and is held by the other group, it must be transferred to the correct group in accordance with the procedure in the deed.

General indemnification by Pepper Global TopCo	Pepper Global TopCo indemnifies Pepper Money and its affiliates from and against all liabilities arising from any breach of the Restructure Warranty, any breach by Pepper Global TopCo or its affiliates of the deed or any other Separation Agreement and certain tax and third party claims. There are time limits on claims of between 2 and 4 years.

9.5.1.2 Relationship Deed

Pepper ANZ HoldCo and Pepper Money have entered into a Relationship Deed. The key terms are set out below:

Purpose	The Relationship Deed sets out certain governance, information and sell-down assistance rights between Pepper Money and Pepper ANZ HoldCo while Pepper Global TopCo effectively holds more than 10% of all Shares through its wholly owned subsidiary Pepper ANZ HoldCo.
Nominee Director Appointment rights	Pepper ANZ HoldCo may nominate for appointment as a Director (**HoldCo Nominee**): • for so long as the aggregate Relevant Interest of Pepper ANZ HoldCo is greater than 10% but less than or equal to 20% – 1 Director; • for so long as the aggregate Relevant Interest of Pepper ANZ HoldCo is greater than 20% but less than or equal to 40% – 2 Directors; and/or • for so long as the aggregate Relevant Interest of Pepper ANZ HoldCo is greater than 40% (and the total number of Directors is more than 8) – 3 Directors.
Alternate director	A HoldCo Nominee may appoint an alternate director on an ad hoc basis, subject to compliance with the Board Charter and the Constitution.
Director Fees	The fees payable to Directors by the Company will be the same as between Directors (including as between Alternate Directors, HoldCo Nominees and other Directors) and will be subject to the Constitution.
Sell-down assistance	If Pepper ANZ HoldCo is a deemed a "Controller" of the Company for the purposes of the Corporations Act, the Company has agreed to assist Pepper ANZ HoldCo including by providing market disclosure to facilitate a disposal of Shares by Pepper ANZ HoldCo. Where Pepper ANZ HoldCo is not a "Controller" but holds more than 10% of all Shares and has a nominee on the Board, the Company will provide reasonable assistance to Pepper ANZ HoldCo to dispose of its Shares.
Information Sharing	Subject to certain restrictions (including breach of law, privilege and confidentiality), and Pepper ANZ HoldCo or its affiliates owning no less than 10% of all Shares and having a nominee on the Board, Pepper Money must provide Pepper ANZ HoldCo and certain other shareholders with access to certain financial and accounting information.
Term	The Relationship Deed terminates if Pepper ANZ HoldCo ceases to hold at least 10% of all Shares in Pepper Money.

9.5.1.3 Transitional Services Agreement

Pepper Global will continue to provide certain services to Pepper Money under a Transitional Services Agreement between Pepper Group Services (Australia) Pty Ltd (**PGS**) and Pepper Money.

Services	• Providing assistance in the acquisition or sale of loan portfolios, businesses, platforms and the like by Pepper Money; • assistance in relation to corporate funding, strategic partnerships, ventures, capital investments and similar arrangements by Pepper Money; and • certain assistance in relation to legacy tax issues, matters arising from listing, and management of employee share schemes relating to the period prior to completion of the initial public offering of Pepper Money.
Term	Two years from completion of the initial public offering of Pepper Money (which can be extended by agreement between the parties).
Authorised Representative	PGS is appointed as an authorised representative of the Company for the purposes of Australian financial services licences for the limited purpose of providing the services to Pepper Money.
Restraint	Pepper Global is restrained from pursuing an opportunity to enter into an alliance, joint venture, merger, acquisition or similar transaction with a third party, that is substantially similar to the business of Pepper Money or would compete with the business of Pepper Money, except in certain circumstances such as where Pepper Money does not wish, or fails, to pursue the opportunity.
Fee	Pepper Money will pay a fixed monthly fee, of $50,000, for the prescribed scope of services, with further fees applying for additional work including where assistance in the acquisition or sale of loan portfolios, businesses, platforms and the like by Pepper Money progresses to stage 2 of a bidding process.
Termination	Either party may terminate the agreement, by providing 14 days' notice for material breach by the other party (and, if the breach is capable of remedy, it is not remedied within 14 days), or immediately on an insolvency event occurring or termination of the Trademark Licence Agreement or the Relationship Deed. Either party may also terminate on 30 days' notice if the PGS' ownership interest in the Company falls below 25%. PGS can terminate the agreement on 30 days' notice where a competitor of Pepper Money or the Pepper Global corporate group acquires Control of Pepper Money. Pepper Money can also terminate the agreement on 30 days' notice if there is a change in Control of PGS.
Tripartite Deed	Pepper Money and PGS have entered into a tripartite deed with the security trustee under the Corporate Debt Facility under which, among other things, PGS agrees to limits on its rights to terminate the agreement in certain circumstances.

9.5.1.4 Trademark Licence Agreement

The Pepper Global Group has agreed to grant a licence to Pepper Money to use the 'Pepper' trade-marks, and licence them to Pepper ANZ for use in Australia and New Zealand on a long-term basis under the Trademark Licence Agreement (**TLA**). Key terms of the TLA include:

Licence	Pepper Group Assets (Australia) Pty Limited (**PGA**) grants Pepper Money an exclusive, non-transferrable, sub-licensable licence of certain Pepper registered trade-marks and the 'Pepper' name (**Trade Marks**). The permitted scope of use is the full scope of goods and services for which the Trade Marks are registered, and in the case of the 'Pepper' name includes use as part of product names.
Territories	Australia and New Zealand.
Fee	A$425,000 per annum, to be increased by 4% from year 4 of the term. The licence fee is payable bi-annually.
Term	Initial term of 10 years (**Initial Term**) with two successive automatic renewal periods of 5 years (**Renewal Terms**). The TLA will continue for 20 years unless it is terminated or the right to renewal has been extinguished.
No renewal	If during the Initial Term or the first Renewal Term: • a competitor of Pepper Money; or • a competitor of a Pepper Global Group member or a competitor of KKR (that is a competitor in the financial services sector in Australia or New Zealand) for so long as the relevant KKR entities continue to control Pepper Global, acquires control of Pepper Money, Pepper Money will not be entitled to automatic renewal of the licence. This means that if a competitor acquires control of Pepper Money in year 8 of the licence it will not be renewed after the Initial Term (year 10).
Termination	After the end of the Initial Term, PGA can terminate the licence, without cause, by providing 2 years' notice. At any time, Pepper Money can terminate the licence, without cause, by providing 1 year's notice. Either party may terminate the licence, by providing 60 days' notice, for unremedied material breach or an extreme adverse event (i.e. an event that causes the Trade Marks to be brought into serious disrepute, or has a material adverse impact on the other party's business) or immediately in the event of insolvency of the other party.
Right and last right of refusal	Pepper Money has a first and, subject to certain conditions, a last right to purchase the Trade Marks at an independently valued fair market price.
Reserved Rights	Subject to certain restrictions, Pepper Global, its related entities and certain licensees, may continue to use certain Pepper trade marks in the Territory in relation to a limited group of activities being funding activities (i.e. capital raising and derivatives), acquisition activities, and non-consumer facing activities.
Timing of Funding Activities and Acquisition Activities	Each year each party must notify the other of and coordinate the timing and nature of funding activities and use reasonable endeavours to provide a least 2 months written notice to the other party prior to launching any specific funding activity.

Pepper ANZ Product Names	Pepper Money may use "Pepper" in conjunction with descriptive words as part of product names (including Pepper Product Selector, Pepper Asset Finance, Pepper Resolve and Pepper Transformer), provided that all use is in accordance with the Brand Guidelines. The Brand Guidelines are the guidelines that are in place in relation to marketing and promotion of the Trade Marks in the Pepper Money business today, and may only be updated with the consent of Pepper Money or as required by applicable law.
Ownership	PGA retains the ownership of the Trade Marks and all copyright in the Trade Marks.
Tripartite Deed	Pepper Money and PGA have entered into a tripartite deed with the security trustee under the Corporate Debt Facility under which, among other things, PGA agrees to limits on its rights to terminate the licence in certain circumstances.

9.5.2 Shareholder Loan

As set out above, as at the date of this Prospectus there is a shareholder loan in place in the form of a note outstanding with Pepper ANZ HoldCo (as lender) and the Company (as borrower) (**Shareholder Loan**). The principal amount of the note is $238,256,432.30 and it accrues interest at a rate of 8% per annum from date of the issue on 31 March 2021. The Shareholder Loan will be paid out in full from the proceeds of the Offer on Completion or through the issue of New Shares to Pepper ANZ HoldCo at Completion of the Offer.

9.5.3 Corporate Debt Facility

The Company and Pepper Asset Finance Pty Ltd (**PAF**) entered into a secured syndicated facility agreement (**Facility Agreement**) with three major international banks/financiers (being Credit Suisse AG, Sydney Branch, Goldman Sachs Mortgage Company and Royal Bank of Canada who are each respectively affiliates with the certain Joint Lead Managers), on 23 March 2021 to provide an IPO bridge term loan facility for Pepper ANZ (**Bridge Facility**).

If the IPO contemplated by this Prospectus occurs and certain other conditions (described below) are satisfied, the Bridge Facility automatically converts into a secured syndicated 3-year revolving cash advance facility (**Corporate Debt Facility**). In addition to the IPO itself, the other conditions for conversion are summarised below. Pepper Money expects these conditions will be satisfied on the date of Completion, and as a result the Corporate Debt Facility will commence in place of the Bridge Facility on the date of Completion:

- no default is subsisting or will occur as a result of the IPO Event occurring;
- the Company is an obligor under the Corporate Debt Facility; and
- the Company must reduce amounts outstanding under the Bridge Facility to A$50 million or below (and hence reduce the Net Leverage Ratio to 1.0x or less (after taking into account the relevant prepayment). See Section 4.5.5.5 for further information on the Net Leverage Ratio calculation).

The key terms of the Corporate Debt Facility are summarised below.

Table 38: Corporate Debt Facility

Amount	• The facility limit under the Corporate Debt Facility is A$200 million.
Interests and fees	• The Corporate Debt Facility bears interest at the 90-day BBSY rate (the Australian bank bill swap reference rate (bid)) or, for periods longer than 3 months, then at the corresponding rate for the relevant interest period, with a floor of 0.00% in all cases, plus a margin. The margin varies in accordance with the Net Leverage Ratio. • Fees payable in connection with the Corporate Debt Facility include the following: – one-off upfront fees payable on drawdown of the Corporate Debt Facility and on the occurrence of the IPO; and – a commitment fee on the undrawn portion of the commitments.
Maturity	• The third anniversary of the date of Completion.
Guarantees and security	• The Corporate Debt Facility is guaranteed, as at the date of this Prospectus, by the Company and PAF. There is an ongoing requirement for the Company to ensure that the Corporate Debt Facility is guaranteed by each of the Company's wholly-owned subsidiaries with positive EBITDA necessary to ensure that the obligors (meaning the Company as original borrower and all Guarantors) together comprise at least 90% of the consolidated EBITDA and total assets of Pepper ANZ (excluding non-wholly owned subsidiaries and Funding Vehicles for Warehouse Facilities, Term Securitisations and risk-retention arrangements). • The Company and PAF have granted and any future Guarantor will also, grant security over their respective assets and undertakings (other than certain excluded property) to secure the Corporate Debt Facility.
Repayments and prepayments	• All amounts outstanding under the Corporate Debt Facility are repayable in full on the maturity date. • There are no scheduled amortisation payments after the IPO has occurred. • Voluntary prepayments may be made (subject to certain minimum payment amounts and notice requirements). • If all or substantially all of the assets of Pepper ANZ are sold, there is a requirement to prepay all outstanding amounts under the Corporate Debt Facility.
Financial covenants	• The Corporate Debt Facility is subject to certain customary financial covenants which are tested semi-annually. See Section 4.5.5.5 for further detail.
Restriction on distributions	• No dividends/other distributions to shareholders can be made if an event of default is subsisting or would occur as a result of the distribution.
Other terms	• The Corporate Debt Facility also contains customary representations and warranties, undertakings and events of default. A breach of a financial covenant or these other terms (which are not remedied within any applicable grace period) will be an event of default under the Corporate Debt Facility and will, among other consequences, enable the lenders to accelerate repayment under, and terminate the Corporate Debt Facility as well as enforce security over the obligors.

Review events	• The Corporate Debt Facility contains customary review events, including: – for a change of control where any person or a group of persons acting in concert (other than KKR Credit Advisors (US) LLC or its affiliates) directly or indirectly acquires ownership and/or control of the majority of the voting Shares in the Company; – if all of the Shares of the Company (or any class of them) are suspended from trading on the ASX for 10 consecutive business days or longer (subject to customary exceptions); and – if all of the Shares in the Company are removed from the official list of the ASX. • If a review event occurs, the lenders may trigger a 45-day period of good faith discussion and negotiation to agree any necessary amendments to the finance documents. • If no agreement is reached by the end of review period, the majority lenders may instruct their agent to require the obligors to repay the Corporate Debt Facility in full within 90 days. • Even if agreement is reached by the end of a review period with the majority lenders, any dissenting lender may require the obligors to prepay that lender's participation and cancel that lender's commitments. – See Section 4.5.5.7 for further detail.

9.5.4 Warehouse Facilities and Term Securitisations

As at 31 December 2020, Pepper Money had 35[1] Funding Vehicles established in Australia and New Zealand, in respect of which financing amounts are outstanding, funding the origination (and refinancing) of residential mortgage loans and other financial assets (collectively the **loan assets**). 10 of those Funding Vehicles relate to Warehouse Facilities in Australia and New Zealand and the remaining 25 Funding Vehicles relate to Term Securitisations (including Private Term Securitisations) in Australia. In addition, as at 31 December 2020, Pepper Money had a further 4 Funding Vehicles established in Australia and New Zealand in respect of which financing amounts are outstanding, funding the acquisition (and subsequent refinancing) of residential mortgage loans (each an **Acquisition Warehouse Facility**).

The Australian and New Zealand Warehouse Facility and Term Securitisation arrangements are governed by a number of material contracts including:

- **Master trust or trust deeds:** These documents provide for the creation of special purpose trusts as Funding Vehicles which are established to enter into the applicable Warehouse Facility or Term Securitisation arrangements. The trustee of Funding Vehicles relating to Australian Warehouse Facilities is, in most cases, a Pepper ANZ Company. For Funding Vehicles relating to Term Securitisations and New Zealand Warehouse Facilities, the trustee is a third party professional trustee company. Other than in the case of 3 of the Acquisition Warehouse Facilities, a Pepper ANZ Company is the sole unitholder or beneficiary (as applicable) of these Funding Vehicle trusts and these documents provide the terms of the unitholder's or beneficiary's (as applicable) entitlements and, in particular, its entitlement to residual income. The relevant Pepper ANZ Company's right, as unitholder or beneficiary (as applicable), to residual income provides a significant contribution to the net interest margin it derives from the loan assets funded through these arrangements. These rights are subordinated and subject to the interests of a range of other creditors of the Funding Vehicles, as described more fully below;
- **Origination and sale documents:** These documents govern the terms and conditions under which the relevant Pepper ANZ Company originates or transfers loan assets to a Funding Vehicle (see Section 9.5.4.1 for more detail);
- **Management documents:** These documents govern the terms and conditions under which Pepper Money is appointed to manage and provide directions in relation to the respective Funding Vehicles in carrying on their day-to-day business, as well as circumstances in which Pepper Money may be removed as manager. The manager receives fees in exchange for the provision of those services (see Section 9.5.4.2 for more detail);

1. Excluding the Settlement Trust.

- **Servicing documents:** These documents govern the terms and conditions under which a Pepper Group Company is appointed to service the loan assets of the respective Funding Vehicles by interfacing with and collecting payments from customers, as well as circumstances in which it may be removed as servicer. The servicer receives fees in exchange for the provision of those services (see Section 9.5.4.3 for more detail);
- **Term Securitisation- and Warehouse Facility-specific agreements:** These documents contain the terms, conditions and other arrangements specific to the relevant Term Securitisation or Warehouse Facility, which may include (but are not limited to):
  - documents which govern, amongst other things, the distribution of cashflows collected by the Funding Vehicle in respect of its loan assets, and the priority of allocation of losses experienced by the Funding Vehicle;
  - funding facility documents entered into with the funders for Warehouse Facilities, liquidity and redraw facilities, back-up servicer agreements or note issuance and subscription documents entered into with dealers for the placement of notes in connection with Term Securitisations;
  - documents which constitute the borrowing of the Funding Vehicles, which govern the key terms of the securities, such as interest rates and maturity profiles;
  - security trust deeds and security documents, which create the security over the assets of the Funding Vehicle, and establish a security trust for the benefit of the Funding Vehicle's creditors; and
  - hedging arrangements,

  (see Section 9.5.4.4 for more detail).
- **Risk Retention funding agreements:** These documents contain the terms, conditions and other arrangements specific to the funding of securities held by Pepper ANZ companies for the purposes of meeting risk retention requirements in various Funding Vehicles. Risk retention requirements exist in all new Term Securitisations issued since October 2016[2] and in a small number of Warehouse Facilities and typically involve a Pepper ANZ Company committing that a Pepper ANZ Company (**Retention Vehicle**) will acquire and retain securities (**CRR Securities**), being generally not less than a 5% holding in all note classes in addition to its holding of Junior Notes, for the purposes of "credit risk retention" to meet the requirements of the regulatory agencies in the jurisdictions of its investor base (e.g., the United States of America, Europe and Japan). The Retention Vehicle may obtain debt financing to finance the holding of the CRR Securities. If so then the Retention Vehicle will grant a security interest over the CRR Securities held by it and Pepper Money will provide a full recourse guarantee in respect of that Retention Vehicle's obligations under the debt financing arrangements.
- **AOFM Forbearance SPV (fSPV) Funding Arrangements:** These documents contain the terms, conditions and other arrangements governing Pepper Money's participation in the fSPV, which is a single SPV funded by the Commonwealth (through the A$15 billion Structured Finance Support Fund as part of the Federal Government's response to the impact of COVID-19 on the ability of borrowers to continue to make their monthly loan payments) and industry participants including Pepper Money. The fSPV allowed participant originators (including Pepper Money) to access temporary liquidity support for COVID-19 hardship-related missed interest payments on loan assets, while requiring Funding Vehicles to reimburse this liquidity support from future residual income. In 2020, Pepper Money accessed the fSPV through eligible drawings made by the majority of Funding Vehicles for which Pepper Money is the sole residual income unitholder. The aggregate of such drawings was $28.8 million and this amount, together with interest accrued, is required to be repaid by the Funding Vehicles over a 5-year period (in the case of mortgage loans) or 3-year period (for asset finance receivables) commencing in April 2021.

9.5.4.1 Origination and sale documents

The origination and sale documents establish the terms on which the relevant Pepper ANZ Company may originate and/or transfer loan assets to a particular Funding Vehicle.

Typically, one or more Pepper ANZ companies will give representations and warranties in respect of the origination and/or sale of the relevant loan assets to the relevant Funding Vehicle, including as to whether those assets comply with the eligibility criteria applicable to the relevant Warehouse Facility or Term Securitisation. These eligibility criteria typically include that the assets are enforceable and have been originated in compliance with law and the relevant Pepper ANZ Company's policies.

2. The first transaction to include a risk retention requirement was the PRS 17 transaction in October 2016.

In the event of a breach of these representations, a Pepper ANZ Company may be obliged to repurchase, or provide collateral compensation (including by way of lending money to, or subscribing for securities issued by, or providing a payment to, a Funding Vehicle) in respect of, the relevant loan assets. The amount to be paid or provided is generally calculated by reference to the unpaid balance of the relevant assets (or part thereof) and/or by reference to the relevant loss suffered.

Pepper ANZ companies also commonly give indemnities to the Funding Vehicle in respect of losses arising from breaches of these representations.

9.5.4.2 Management documents

The terms of the management documents (together, in some cases, with certain Term Securitisation and Warehouse Facility-specific agreements, described below) set out Pepper Money's key obligations as manager of the relevant Funding Vehicles (including powers to direct the trustee in relation to certain matters) and circumstances or defaults following the occurrence of which (and after the expiry of any applicable grace period) Pepper Money may be required to cease acting as the manager of the Funding Vehicle. These may include (but are not limited to) some or all of the following:

- if it becomes insolvent;
- if required by law;
- if it ceases to carry on a financial services business or does not maintain its necessary authorisations; or
- if certain breaches of its obligations (including to direct payments) or representations under the applicable transaction documents occur.

If the manager is required to cease acting in these circumstances, a replacement manager may be appointed to the Funding Vehicle and will be entitled to the relevant fees.

In addition to Pepper Money ceasing to act as manager following default, the occurrence of such events (after the expiry of any applicable grace period) would typically have other consequences under the transaction documentation which may include, depending on the transaction, a "stop origination" or "stop funding" event, an "amortisation event" or an "event of default".

Pepper Money as manager of a Funding Vehicle also typically gives indemnities including in respect of certain losses arising from breaches of its obligations or negligence as manager. Pepper Money often also gives indemnities in respect of certain other matters including any information it has provided in connection with the relevant Warehouse Facility or Term Securitisation being incorrect or misleading and/or certain taxes, costs, losses or liabilities that may be incurred by funders, dealers or other service providers in connection with the relevant Warehouse Facility or Term Securitisation.

9.5.4.3 Servicing documents

The terms of the servicing documents (together, in some cases, with certain Term Securitisation and Warehouse Facility-specific agreements, described below) set out the key obligations of the relevant Pepper ANZ Company as servicer of the asset pool for the relevant Warehouse Facility or Term Securitisation. They also set out the circumstances or defaults following the occurrence of which (and after the expiry of any applicable grace period) that Pepper ANZ Company may be required to cease acting as the servicer of the Funding Vehicle. These include (but are not limited to) some or all of the following:

- if it becomes insolvent;
- if it becomes unlawful for it to perform its material obligations;
- if it ceases to carry on business or to maintain a required authorisation;
- if it breaches certain obligations (including the obligation to remit collections received in connection with loan assets to the relevant Funding Vehicle) and representations under the applicable transaction documents occur; or
- if a change of control occurs in relation to Pepper Money or a certain other Pepper ANZ Company without consent.

In addition to the relevant Pepper ANZ Company ceasing to act as servicer following default, the occurrence of such events (along with the expiry of any applicable grace period) would typically have other consequences under the transaction documentation which may include, depending on the transaction, a "stop origination" or "stop funding" event, an "amortisation event" or an "event of default".

Third-party service providers have entered into arrangements with a number of the Funding Vehicles to act as back-up servicer and step into the role in the event that the relevant Pepper ANZ Company ceases to act as servicer. The back-up servicer or any replacement servicer is paid a fee to be on standby to commence servicing and will be entitled to the servicing fees should it be appointed as servicer.

The relevant Pepper ANZ Company as servicer of the asset pool also typically gives indemnities including in respect of certain losses arising from its negligence or breaches of its obligations as servicer (which include the servicing of the asset pool in accordance with applicable law and that entity's servicing policies) and in respect of certain other matters including certain costs, losses or liabilities that may be incurred by funders, dealers or other service providers in connection with the relevant Warehouse Facility or Term Securitisation.

9.5.4.4 Term Securitisation and Warehouse Facility specific agreements

There are a number of core documents specific to each individual Warehouse Facility and Term Securitisation, which contain a range of terms and conditions, including those relating to the funding provided by the funders (including interest and repayment terms), the criteria that must be satisfied by loan assets in the pool (often referred to as "eligibility criteria") and certain performance triggers (such as gross loss rates, delinquency levels and net interest margin) which, if breached, may lead to consequences including, depending on the transaction, a "stop origination" or "stop funding" event, an "amortisation event" or an "event of default". The consequences of these events occurring are also provided for under these documents.

These documents also set out a detailed methodology for the allocation and distribution of cashflows collected by the Funding Vehicle in respect of its loan assets, and the priority of allocation of losses experienced by the Funding Vehicle.

Certain key terms of these documents for, and features of, the Warehouse Facilities and Term Securitisations are briefly summarised in Tables 39 and 40 respectively below.

Table 39: Warehouse Facilities

Purpose	• Utilised to acquire and/or fund newly originated assets, including, in the case of Australian mortgages, assets acquired from Pepper Money's settlement trust warehouse facility where they may have been held for a short period of time following origination (see Section 3.6.4.1 for more detail). • Can be utilised to fund the repurchase of loans from Term Securitisations at call option dates, subject to available funding commitment and satisfaction of relevant conditions.
Senior and Mezzanine Warehouse Facility commitment	• Senior Warehouse Facility commitments are provided by domestic and international banks. • Mezzanine Warehouse Facilities, which rank behind those of the senior funders but senior to Pepper ANZ Company "first loss" capital contribution, are provided by domestic and international non-bank financial institutions (e.g. insurance companies and pension funds) and other institutional investors (e.g. investment management firms). • Drawing on the Warehouse Facilities is subject to agreed conditions linked to loan asset characteristics, appropriate levels of credit support and other conditions.

"First loss" capital from Pepper ANZ companies	• A Pepper ANZ Company provides "first loss" capital contributions to support the Funding Vehicles by subscribing for Junior Securities, which are the most junior securities in the capital structure. These Junior Securities provide credit support to the senior and mezzanine funders by absorbing a specified amount of losses on the loan assets after Pepper ANZ Company's entitlement to residual income in the relevant period has first been exhausted. • The amount of such credit support required to be provided by the relevant Pepper ANZ Company is driven by the credit requirements of the senior and mezzanine funders, which are in turn a function of their respective assessments of the risk profile of the underlying Warehouse Facility assets. • If there is insufficient credit support in place with respect to a Funding Vehicle (which may occur, e.g., if losses have been sustained), the senior and mezzanine facilities associated with that Funding Vehicle may not be able to be drawn, and other consequences such as an amortisation event may also occur. • If there are losses on the loan assets which cannot be reimbursed through excess income collections, the relevant Pepper ANZ Company's investment in the Junior Securities may not be repaid, and Pepper Money will suffer losses as a result. • In a small number of Warehouse Facilities, a Pepper ANZ Company is also required to subscribe for CRR Securities. Refer to Section 9.5.4.4 for further details.
Tenor	• Warehouse Facility commitments are subject to renewal by funding providers on a regular basis, with a 12 month renewal period being the most common. • If facilities are not renewed, the relevant funder or funders choosing not to renew can be replaced in some circumstances or otherwise the Warehouse Facilities generally will need to be refinanced (i.e., the loan assets sold to another Funding Vehicle). If the funder(s) are not replaced or the loan assets refinanced in time, an amortisation event and/or event of default will generally occur (see Key Events below).
Eligibility criteria and portfolio parameters	• Each Warehouse Facility has eligibility criteria which set out the types and features of loan assets that can be originated by or sold to the relevant Funding Vehicle, and certain other requirements which the loan assets must meet (including assignability, enforceability and compliance with applicable laws and policies). These eligibility criteria are, in many respects, substantially aligned for Warehouse Facilities funding a particular asset class (such as Prime Mortgages, Non-Conforming mortgages and Asset Finance receivables). In addition to loan level eligibility criteria, Warehouse Facilities will typically also include limits on the concentration of certain loan attributes in the relevant asset pool (also known as portfolio parameters). • Breaches of eligibility criteria usually require the relevant Pepper ANZ Company to repurchase or collateralise the relevant loan assets – see 9.5.4.1 (Origination and Sale Documents). • Portfolio parameters often include limits relating to geographic concentration, loan size, loan to value ratio (**LVR**), and proportion of investment loans and interest-only loans. • Eligibility criteria and portfolio parameters can be amended from time to time, usually requiring the approval of the senior and mezzanine funders. • The eligibility criteria are typically only tested in relation to a loan asset when that loan asset first becomes an asset of the Warehouse Facility and representations are in turn made at that time, or if redraws or further advances are made or requested. • Portfolio parameters are tested periodically (typically on a monthly basis), and breaches that are not remedied or waived may have consequences including triggering stop funding events and/or amortisation events.

Conditions precedent to funding	• The availability of funding under a Warehouse Facility to fund the origination or acquisition of new loan assets is subject to a number of conditions precedent. The material conditions precedent typically include the following, some of which may be outside the control of Pepper ANZ companies: – commitment of the relevant funder being available, and the revolving period not having terminated (see "Key Events" below); – compliance by the relevant Pepper ANZ Company with its obligations and representations under the applicable transaction documents; – compliance of the loan assets to be funded with the eligibility criteria for the relevant Warehouse Facility; – required credit support levels (e.g., in the form of Junior Securities)[3] being contributed and maintained, and portfolio parameters being complied with; – the absence of certain events (described further below), including "stop origination" and "stop funding" events, "amortisation events", "potential events of default" or "events of default" under the relevant Warehouse Facility; and – a failure to satisfy all conditions precedent in respect of a Warehouse Facility would limit the ability to fund the origination of new loan assets through that facility.
Key Events	• The revolving period during which further funding may be requested under a Warehouse Facility may terminate early upon the occurrence of certain prescribed "stop origination" or "stop funding" events (in addition to upon the occurrence of certain other events such as "amortisation events", "potential events of default" and "events of default"). • "Stop origination" or "stop funding" events (howsoever defined) typically include triggers similar to the conditions precedent to funding set out above. They generally also include triggers which may relate to loss rates and other indicators of the performance of the then current portfolio and may also include events such as changes of control. The occurrence of these events or hitting these triggers may be outside the control of Pepper ANZ companies. The relevant events are typically tested periodically. These events may include: – the failure of the assets in the relevant asset pool to satisfy certain portfolio parameters when tested from time to time; – a failure to maintain a minimum net interest margin within the Funding Vehicle; – where certain asset arrears or loss rate thresholds have been exceeded and not cured in applicable periods; – the non-compliance by the Pepper Entities (in their various capacities) with their obligations or warranties under the transaction documents; – the failure to maintain required credit support levels (e.g., in the form of Junior Securities); and – the occurrence of a change of control in relation to Pepper Money or certain other Pepper ANZ entities without consent.

3. To support the credit position of senior ranking securityholders in Pepper Money Warehouse Facilities and Term Securitisations, Pepper Money is required to maintain a required credit support levels in the form of Junior Securities. This specific credit support ensures that the credit profile of senior and mezzanine funders under Pepper Money Warehouse Facilities and Term Securitisations is protected by absorbing a specified amount of losses on the loan assets after the relevant Group Company's entitlement to residual income in the relevant period has first been exhausted.

Key Events ***continued***	• In addition to stopping further funding under the applicable Warehouse Facility, the occurrence and/or continuance of these events may lead to other events including those listed below. • Amortisation events: these may occur where a stop origination or stop funding event continues unremedied for a particular period of time, in similar circumstances to those described above, and also in a broad range of other situations including where: – adverse events occur with respect to one or more Pepper ANZ companies; – operational audits result in adverse findings; and – Pepper ANZ companies do not comply with obligations with respect to repurchasing or collateralising loan assets where eligibility criteria has not been met at the relevant testing time. – If an amortisation event occurs, the consequence may be that all or part of the residual income that the relevant Pepper ANZ companies otherwise would have received is instead used to help repay senior and mezzanine funding; • Service provider termination events – as described above, these could lead to the relevant Pepper ANZ Company ceasing to act and being replaced as manager and/or servicer under the Warehouse Facility; and • Events of default – an event of default in respect of the Warehouse Facility may occur where a “stop funding”, “stop origination” or an “amortisation event” occurs and is continuing for particular periods of time, and also in a broad range of other situations, including: – as non-payment of amounts owing to funders (subject to any applicable grace period); – insolvency of the trustee of the relevant Funding Vehicle or one or more Pepper Entities; – breach of obligation or misrepresentation by certain parties; – unremedied breaches of material obligations; and – deficiencies in the establishment of the relevant Funding Vehicle or the security given to funders or technical/structural problems with the transaction documents.
Limited recourse	• Third-party funders of Warehouse Facilities take credit risk primarily based on the underlying asset pools as the source of payment of their interest and principal and have limited recourse to the Pepper ANZ companies • Apart from the exposure the Pepper ANZ companies have to each Warehouse Facility relating to the Junior Securities and the CRR Securities, the recourse of third-party funders to Pepper ANZ companies is limited to claims related to breaches by Pepper Entities (in any of their capacities as originator, manager, servicer or first loss provider) of their obligations or warranties in relation to the transactions and assets and in relation to the indemnities described above. This includes the Pepper Entities’ obligations in certain circumstances to post collateral, provide compensation, or repurchase loan assets from the relevant Funding Vehicles, for instance where eligibility criteria have not been met at the relevant testing time.

Residual income	• Pepper ANZ companies own the residual income unit in each of its Australian Warehouse Facilities, other than in the case of three Acquisition Warehouse Facilities (with the aggregate loan balance funded in those facilities being less than 2.54% of Pepper's total lending portfolio as at 31 December 2020). • The residual income unit entitles the holder to receive the income generated (if any) in respect of the loan assets funded in each relevant Warehouse Facility, less the cost of financing and other operational costs of the Funding Vehicle, except to the extent that cash flow is used for other purposes including: – making up losses on loan assets; – helping to repay senior and mezzanine funding in the event a Warehouse Facility is not extended or refinanced, or if an "amortisation event" or an "event of default" occurs; and – to be applied towards meeting payments due to holders of, or otherwise towards or in respect of, other securities (including to the trustee of the fSPV.

Table 40: Term Securitisations

Purpose	• Term funding to acquire loans of the relevant asset class purchased from Warehouse Facilities. • Term Securitisations can either be public or private transactions, with the key difference being that in a Private Term Securitisation there is typically only one or a small number of senior funders participating. • Pepper ANZ companies have the following main securitisation "shelf" programs in Australia: – the Pepper Residential Securities or "PRS" program to fund Non-Conforming residential mortgage loans (and a minority proportion of Prime mortgages); – the "I-Prime" program to fund Prime residential mortgage loans (and with a practice of refinancing portfolios where more than half of the loans are made to investors and/or are on terms allowing payments of interest only for a period before converting to principal and interest); and – the Sparkz program to fund auto and other Asset Finance receivables.
"First loss" and other capital from Pepper ANZ companies	• Similar to Warehouse Facilities, in Term Securitisations Pepper Entities are required to hold a percentage of "first loss" capital, typically in the form of Junior Securities, which provides credit support to the senior and mezzanine securitisation funding partners by absorbing losses on the loan assets after the relevant Pepper ANZ Company's entitlement to residual income has first been exhausted. • The amount of such credit support required to be provided by the Pepper Entities is driven by factors including the credit risk profile of Pepper Money Term Securitisations required to achieve various rating levels (broadly, an assessment of the amount of risk assessed to be associated with an investment in a class of notes) as determined by the rating agencies. • In all Term Securitisations since late 2016[4], a Pepper ANZ Company is also required to subscribe for CRR Securities. Refer to Section 9.5 for further details. The relevant Pepper Entity typically enters into specific funding arrangements with banks and other investors in order to fund its acquisition of these CRR Securities

4. The first term securitisation to include a risk retention requirement was the PRS 17 transaction that completed in October 2016.

Eligibility criteria	• With some exceptions, in Term Securitisations the underlying loan assets are acquired by the Funding Vehicle only on establishment of the securitisation transaction, and no further loan assets are added to the portfolio over time. Eligibility criteria (similar to those described in Table 39) must still be satisfied at the time of the establishment of the Term Securitisation. Consequences of an asset failing to meet these criteria are often similar to those described in Table 39. • Some Term Securitisations may include a revolving feature where principal collections received in respect of loan assets held by the Funding Vehicle may be used to acquire additional loan assets during a specified period (the **revolving period**). The purchase of additional loan assets is subject to certain conditions being met. These conditions are usually similar to the conditions precedent described in Table 39.
Tenor	• The amount of time that funding is provided for as part of RMBS and ABS Term Securitisations matches the duration of the loan assets held by the relevant Funding Vehicle. • Pepper Money typically has the right (but not the obligation) to cause the redemption of the securities by repurchasing or refinancing the underlying loan assets, typically after a certain period of time (such as 3, 4 or 5 years) or once the original securitised loan portfolio has amortised to a pre-agreed percentage (typically in a range of 10% - 20% of the portfolio balance at the time of the transaction). This is referred to as a “call option”.
Limited recourse	• Capital markets investors who invest in Term Securitisations take credit risk primarily based on the underlying pool of assets as the source of payment of their interest and principal and have limited recourse to the Pepper ANZ companies. • Apart from the exposure the Pepper ANZ companies have to each Term Securitisation relating to their Junior Securities and CRR Securities, the recourse of capital markets investors to Pepper ANZ companies is limited to claims similar to the type referred to in respect of Warehouse Facilities in Table 39.
Residual income	• Pepper ANZ companies own the residual income unit in each of its Term Securitisations. • The residual income unit entitles the holder to receive the income generated (if any) in respect of the loan assets funded in each relevant Term Securitisation, less the cost of financing and other operational costs of the Funding Vehicle. As the holder of the residual income unit in each Term Securitisation, Pepper ANZ Companies are entitled to receive this residual income on a monthly basis except to the extent that such cash flow is used for other purposes similar to those referred to in respect of Warehouse Facilities in Table 39.

9.5.5 Whole Loan Sales

Pepper Money sells portfolios of residential mortgage loans on a regular basis as part of what are referred to as “whole loan sale” transactions. In the period from March 2016 to December 2020, Pepper Money completed 13 separate whole loan sale transactions in respect of Prime residential mortgage loans. Buyers of loans in these transactions are either Australian financial institutions or local institutional investors. In all cases Pepper Money remains as the servicer for the sold portfolio of loans.

Whole loan sale transactions (and the ongoing servicing arrangements that correspond to such transactions) are typically governed by two main documents; the sale and purchase agreement (**SPA**) and the servicing deed or agreement (**SD**).

Certain key provisions of the SPA include:

- **Assignment:** Pepper Money or its relevant related entity as Seller (**Pepper Seller Entity**) assigns its equitable interest in the relevant loans to the relevant counterparty as buyer (referred to as “Buyer” in this Section 9.5.5). The legal title to the loans remains with the Pepper Seller Entity, although the Buyer is given a power of attorney to transfer the legal title at a later time. On and from completion of the sale, the Buyer is entitled to all of the benefits of the sold loans and also agrees to assume any liabilities that subsequently arise in respect of those loans. Where the sold loans are insured under contracts of mortgage insurance, the corresponding contracts are novated to the Buyer on completion;
- **Purchase Price:** the Buyer agrees to pay the Pepper Seller Entity the agreed purchase price for the loans at completion, subject to adjustments made shortly following completion in respect of amounts such as accrued interest and net collections received between a transaction cut-off date (when the pool is finally determined and the completion payment set) and the completion date for the transaction;
- **Warranties:** Pepper Money provides a number of representations and warranties to the Buyer in respect of itself, the Pepper Seller Entity and the loans. These warranties address matters including the accuracy of information provided, the assignability, enforceability and compliance of the sold loans with consumer credit and other applicable laws and Pepper Money’s credit policies, together with the status of the loans at the time of sale. The Buyer’s rights in respect of these warranties is typically subject to a number of qualifications, including as to what had been disclosed to or was otherwise in the actual knowledge of the Buyer, time limits by when a claim must be made and caps on the maximum amount Pepper Money may be required to pay in relation to losses arising from breach of warranty; and
- **Trail Commission Reimbursement**: from Completion the Buyer agrees to reimburse Pepper Money in relation to ongoing trail commissions which Pepper Money or a related entity pays to Distribution Partners in respect of the sold loans.

Certain key provisions of the SD include:

- **Appointment as Servicer:** Pepper Money is appointed as servicer to service the sold loans in accordance with the SD and Pepper Money’s collection policies and all applicable laws, and in a proper, effective and businesslike manner. As servicer, Pepper Money is responsible for all interactions with borrowers including in relation to account enquiries, early and late stage collections and discharges;
- **Term:** Pepper Money’s appointment is typically for a 10 year period with limited rights of the Buyer to terminate the appointment earlier other than in the case of specified defaults (and subject to any applicable grace period); and
- **Fees:** Pepper Money is entitled to receive fees and reimbursement of certain costs.

Where loans are sold to institutional investors, the transactions are structured in a manner similar to a Private Term Securitisation but with the sale by Pepper Money of all of the substantial majority of the Junior Securities and residual income entitlements to the buyer. The arrangements are based on the same master documentation as is discussed under Section 9.5.4.4.

9.5.6 Underwriting Agreement

The Offer is fully underwritten by the Joint Lead Managers pursuant to an underwriting agreement dated on or about the date of the Prospectus between the Joint Lead Managers and the Company (**Underwriting Agreement**). Under the Underwriting Agreement, the Joint Lead Managers have agreed to arrange, manage and underwrite the Offer. The key details of the Underwriting Agreement are set out below.

Fees and expenses

The Company must pay the Joint Lead Managers an underwriting fee of 1.80% of the Offer proceeds and a management fee of 0.45% of the Offer proceeds on the date of Settlement of the Offer. These fees will be shared by the Joint Lead Managers in their respective proportions as set out under the Underwriting Agreement. An incentive fee of 0.60% of the Offer proceeds is payable at the Company’s absolute discretion, acting reasonably and in good faith having regard to the Company’s assessment of the outcome of the Offer and the effectiveness and efficiency of the transaction process, and is to be split between the Joint Lead Managers at the Company’s discretion.

The Company has also agreed to pay or reimburse the Joint Lead Managers for the reasonable costs, charges or expenses of and incidental to the Offer.

The Joint Lead Managers must pay, on behalf of the Company any broker firm fees due to any co-managers, co-lead managers and brokers appointed under the Underwriting Agreement. The Co-Lead Manager and Co-Managers will receive fees on the following basis:

- a fee based on the value of each of their final broker allocations under the Offer (Broker Firm Allocation) calculated as (1.5% x Broker Firm Allocation), payable to the Co-Lead Manager and each of the Co-Managers; and
- a $150,000 base fee and incentive fees of $50,000 conditional on the Co-Lead Manager submitting a broker firm bid of at least $30,000,000 worth of Shares at the Offer Price plus $50,000 conditional on the Co-Lead Manager submitting a broker firm bid of at least $50,000,000 worth of Shares at the Offer Price and $100,000 conditional on the Co-Lead Manager submitting a broker firm bid of at least $75,000,000 worth of Shares at the Offer Price payable to the Co-Lead Manager only.

Termination events not subject to materiality

A Joint Lead Manager may, at any time after the date of the Underwriting Agreement until 5.00pm on the date of Settlement, terminate the Underwriting Agreement without cost or liability to that Joint Lead Manager by notice to the Company and the other Joint Lead Managers if any of the following events occur:

a. **(disclosures in Offer documents)** a material statement in the Offer documents is misleading or deceptive or likely to mislead or deceive, or there is an omission from the Offer documents of material required by sections 710, 711, 715A or 716 of the Corporations Act;

b. **(supplementary prospectus**) the Company issues or is required to issue a supplementary prospectus because of the operation of section 719(1) or a supplementary prospectus is issued in a form that has not been approved by the Joint Lead Managers in circumstances required by the Underwriting Agreement;

c. **(forecasts)** there are not, or there cease to be, reasonable grounds for any statement or estimate in the Offer documents, which relates to a future matter or any statement or estimate in the Offer documents that relate to a future matter is, in the reasonable opinion of the terminating Joint Lead Manager, unlikely to be met in the projected timeframe (including in each case financial forecasts);

d. **(Voluntary Escrow Deeds)** any of the Voluntary Escrow Deeds are withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;

e. **(market fall)** at any time before the date of Settlement, the S&P/ASX 200 Index falls to a level that is 87.5% or less of the level as at the close of trading on the business day immediately prior to the date of this agreement and is at or below that level on the close of trading:
   - for two consecutive business days during any time after the date of this agreement; or
   - on the business day immediately prior to the date of Settlement;

f. **(listing and quotation)** approval (or approval subject to customary conditions) is refused or not granted to the Company's admission to the Official List or to quotation of the Shares on ASX within a specified timeframe, or ASX withdraws, qualifies (other than by customer conditions) or withholds such approval;

g. **(certificate)** the Company does not provide a closing certificate as and when required by the Underwriting Agreement;

h. **(ASIC)** ASIC holds a hearing under section 739(2), ASIC issues an order (including an interim order) under sections 739 or 1324B of the Corporations Act, or an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or an Offer Document or ASIC commences any investigation or hearing under Part 3 of the ASIC Act in relation to the Offer or an Offer document, and any such order, application, investigation or hearing either becomes public or is not withdrawn within 1 Business Day after it is made or commenced or, where it is made or commenced within 1 business days of the date of Settlement, it has not been withdrawn before the date of Settlement;

i. **(notifications)** any person who has previously consented to the inclusion of its name in the Prospectus (other than the terminating Joint Lead Manager) withdraws that consent or gives a notice under section 730 in relation to the Prospectus (other than the terminating Joint Lead Manager);

j. **(withdrawal)** the Company withdraws the Prospectus or the Offer or indicates that it does not intend to proceed with the Offer or any part of the Offer;

k. **(unable to issue New Shares)** the Company is prevented from allotting and issuing the New Shares by applicable laws, an order of a court of competent jurisdiction or a governmental authority, within the time required by the Listing Rules;

l. **(regulatory approvals)** a regulatory body withdraws, revokes or amends any regulatory approvals, including an ASX Waiver and ASIC Modification, required for the Company to perform its obligations under this agreement, such that the Company is rendered unable to perform its obligations under this agreement;

m. **(material contracts)** any of the obligations of the relevant parties under any of the material contracts are not capable of being performed in accordance with their terms (in the reasonable opinion of the terminating Joint Lead Manager) or if all or any part of any of the material contracts:
   - is terminated, withdrawn, rescinded, avoided or repudiated;
   - is altered, amended or varied without the consent of the Joint Lead Managers (acting reasonably);
   - is breached, or there is a failure by a party to comply;
   - ceases to have effect, otherwise than in accordance with its terms; or
   - is or becomes void, voidable, illegal, invalid or unenforceable (other than by reason only of a party waiving any of its rights) or capable of being terminated, withdrawn, rescinded, avoided or withdrawn or of limited force and affect, or its performance is or becomes illegal;

n. **(timetable)** an event specified in the timetable is delayed by more than 2 business days (other than any delay agreed between the Company and the Joint Lead Managers);

o. **(insolvency events)** any Pepper ANZ becomes Insolvent, or there is an act or omission which is likely to result in a member of Pepper ANZ becoming Insolvent;

p. **(change in chair or senior management)** a change occurs in the chair, chief executive officer or chief financial officer of the Company, or the chief executive officer or chief financial officer dies or becomes permanently incapacitated;

q. **(action against directors or senior management)** any of the following occur:
   - a director or senior executive of Pepper ANZ is charged with an indictable offence relating to a financial or corporate matter;
   - any government agency commences any public action against a director or senior executive of Pepper ANZ;
   - any director or senior executive of Pepper ANZ is disqualified from managing a corporation under Part 2D.6; or
   - Pepper ANZ or any of its respective directors or senior executives engages in any fraudulent conduct or activity;

r. **(unauthorised change)** without the prior written consent of the Joint Lead Managers, the Company:
   - disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property other than as contemplated in the Prospectus;
   - ceases or threatens to cease to carry on business;
   - alters its capital structure, other than as contemplated in the Prospectus; or
   - amends its constitution or any other constituent document of the Company, or the terms of issue of the New Shares or corresponding Shares; or

s. (encumbrance) other than as disclosed in the Prospectus, the Company creates or agrees to create an encumbrance over the whole or a substantial part of its business or property.

Termination events subject to materiality

Subject to certain materiality thresholds set out in the Underwriting Agreement, if any of the following events has occurred or occurs at any time on or before Completion or at any other time specific below, a Joint Lead Manager may terminate the Underwriting Agreement without cost or liability to that Joint Lead Manager by notice to the Company and the other Joint Lead Managers:

a. **(new circumstances)** a new circumstance arises after the Prospectus is lodged, that would have been required to be included in the Prospectus if it had arisen before lodgement;

b. **(change in directors)** a change in the directors of the Company occurs, or a director dies or becomes permanently incapacitated;

c. **(compliance with law)** any of the Offer documents or any aspect of the Offer does not comply with the Corporations Act, the Listing Rules, or any other applicable law or regulation;

d. **(information supplied)** any information supplied by or on behalf of a member Pepper ANZ to the Joint Lead Managers in respect of the Offer or Pepper ANZ is, or is found to be, misleading or deceptive, or is likely to mislead or deceive (including by omission);
e. **(disclosures in public information)** a statement in any of the public and other media statements made by, or on behalf and with the knowledge and consent of, the Company or its advisers in relation to the business or affairs of Pepper ANZ or the Offer is or becomes misleading or deceptive or likely to mislead or deceive;
f. **(disclosures in the due diligence report)** the due diligence report or any other information supplied by or on behalf of the Company and to the Joint Lead Managers in relation to the New Shares, Pepper ANZ or the Offer is, or becomes, untrue, incorrect, misleading or deceptive, including by way of omission;
g. **(adverse change)** an event occurs which is, or is likely to give rise to an adverse change in the assets, liabilities, financial position or performance, profits, losses, earnings, prospects or condition or otherwise of Pepper ANZ from those disclosed in the Prospectus or there is an adverse change in the nature of the business conducted by Pepper ANZ as disclosed in the Prospectus;
h. **(certificate)** a statement in any closing certificate is false, misleading, inaccurate or untrue or incorrect;
i. **(hostilities)** any of the following occurs:
   - hostilities not presently existing commence or a major escalation in existing hostilities occurs (whether or not war or a national emergency has been declared) involving Australia, New Zealand, the United States, the United Kingdom, the Peoples' Republic of China, Hong Kong, Singapore or Japan, or the declaration by any of these countries of a national emergency, calamity or war, or a major escalation of a national emergency or calamity by any of those countries or a major terrorist act is perpetrated in any of those countries or involving any diplomatic, military, commercial or political establishment of any of those countries; or
   - a major escalation of COVID-19 (or a related or mutated form) cases occurs in Australia or New Zealand;
j. **(change of law)** there is introduced, or there is a public announcement of a proposal to introduce, a new law or regulation or policy in Australia, or any State or Territory of Australia, or New Zealand (including a policy of the Reserve Bank of Australia or the Reserve Bank of New Zealand);
k. **(breach of laws)** there is a contravention by Pepper ANZ of its constitution or other constituent document, an encumbrance or document that is binding on it or any applicable law, regulation, authorisation, ruling, consent, judgment, order or decree of any Government Authority (including the Corporations Act, the Competition and Consumer Act 2010 (Cth), the ASIC Act and the Listing Rules);
l. **(representations and warranties)** a representation or warranty contained in this agreement on the part of the Company (whether severally or jointly) is breached, becomes not true or correct or is not performed;
m. **(breach)** the Company defaults on one or more of its undertakings or obligations under the Underwriting Agreement;
n. **(legal proceedings)** legal proceedings are commenced against Pepper ANZ or against any director of the Pepper ANZ in that capacity;
o. **(adverse findings)** any regulatory body commences any inquiry or public action against a member of Pepper ANZ or makes any adverse finding or ruling in relation to a member of Pepper ANZ or the industry in which Pepper ANZ operates;
p. **(disruption in financial markets)** any of the following occurs:
   - a general moratorium on commercial banking activities in Australia, the United Kingdom, the United States, Hong Kong, Japan, Singapore, or the Peoples' Republic of China is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
   - trading in all securities quoted or listed on ASX, the London Stock Exchange, the New York Stock Exchange or the Hong Kong Stock Exchange is suspended for at least 1 day on which that exchange is open for trading; or
   - any adverse change or disruption to the existing financial markets, political or economic conditions of, or currency exchange rates or controls in Australia, Japan, Hong Kong, Singapore, the Peoples' Republic of China, the United States or the United Kingdom, or the international financial markets or any adverse change in national or international political, financial or economic conditions;

q. **(force majeure)** there is an event or occurrence, including any statute, order, rule, regulation, directive or request of any governmental agency which makes it illegal, for the Joint Lead Manager to satisfy an obligation under this agreement, or to market, promote or settle the Offer.

Representations, warranties, undertakings and other terms

The Underwriting Agreement contains certain standard representations, warranties and undertakings by the Company to the Joint Lead Managers.

The representations and warranties given by the Company relate to matters such as conduct of the Company, power and authorisations, financial information, information in this Prospectus, the conduct of the Offer, compliance with laws, the ASX Listing Rules and other legally binding requirements.

The Company also provides additional representations and warranties in connection with matters including, but not limited to, title to property, dividends and distributions, material contracts, assets, litigation, non-disposal of escrowed Shares, entitlements of third parties, tax, data privacy, occupational, health and safety and environment laws, anti-money laundering, intangible property, insurance, authorisations and eligibility for Listing.

The Company's undertakings include, among other things, that it will not, during the period following the date of the Underwriting Agreement until 120 days after Shares have been issued under the Offer, issue (or agree to issue) any Shares or securities without the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld or delayed), subject to certain exceptions.

Indemnity

Subject to certain customary exclusions (including gross negligence, wilful misconduct or fraud of an indemnified party or any of their associated indemnified parties), the Company agrees to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

9.5.7 Voluntary Escrow Arrangements

The following persons are subject to voluntary escrow arrangements:

Shareholder	Number of Escrowed Shares	% Post-IPO	Escrow Period
Pepper ANZ HoldCo	266.3	60.59	Until trading day following release of CY21 results
Management Shareholders	4.6	1.05	Until trading day following release of CY21 results
Total	**270.9**	**61.64**	

Each Escrowed Shareholder has agreed to enter into an Escrow Deed in respect of their shareholding on Completion of the Offer which prevents them from "dealing" with their respective Escrowed Shares for the applicable Escrow Period as described above. For Management Shareholders, only Shares acquired under the Management Offer will be subject to voluntary escrow. Shares otherwise acquired under the Offer will not be subject to voluntary escrow.

The restriction on dealing is broadly defined in the voluntary Escrow Deeds. The Escrowed Shareholder are restricted from, among other things, selling, assigning, transferring or otherwise disposing of any legal, beneficial or economic interest in the Escrowed Shares, encumbering or granting a security interest over the Escrowed Shares, granting an option in respect of the Escrowed Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control of, or any legal or beneficial or economical interest in, any of the Escrowed Shares or agreeing to do any of those things.

The Escrowed Shares will be released from escrow on the trading day following the release of the Company's full year results for the financial year ending 31 December 2021.

9.6 Description of the syndicate

Credit Suisse (Australia) Limited and Goldman Sachs Australia Pty Ltd are the joint global co-ordinators, joint bookrunners and joint lead managers to the Offer. KKR Capital Markets LLC and Royal Bank of Canada are joint bookrunners and joint lead managers to the Offer.

National Australia Bank Limited is the Co-Lead Manager to the Offer.

Commonwealth Securities Limited and Escala Partners Limited are the Co-Managers to the Offer.

9.7 Insurance

Pepper Money has a range of insurance policies in place to manage the risks of its day-to-day business and certain other activities.

These policies include professional indemnity insurance, which is held by all member companies of Pepper Money, along with workers compensation insurance for all states and territories of operation.

There are additional, more specific policies in place to cover other relevant business risks, including property, corporate travel and public and products liability cover.

9.8 Litigation and claims

The Company may, from time to time, be party to litigation and other claims and disputes incidental to the conduct of its business, including employment disputes, contractual disputes, indemnity claims and occupational and personal claims. The Company does not believe it is a party to any litigation, claim or disputes potentially or otherwise that could materially adversely affect the Company's business, operating and financial performance.

9.9 Ownership restrictions

9.9.1 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply. The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the Company either themselves or through an associate.

9.9.2 Foreign Acquisitions and Takeovers Act 1975 (Cth) and Federal Government Foreign Investment Policy

Generally, the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (**FATA**) applies to acquisition of shares and voting power in a company of 20% or more by a single foreign person and its associates (**Substantial Interest**), or 40% or more by two or more unassociated foreign persons and their associates (**Aggregate Substantial Interest**), where the acquisition meets a threshold value (which varies by investor type and industry). Where a foreign person holds a Substantial Interest in *Company* or foreign persons hold an Aggregate Substantial Interest in Company, Company will be a "foreign person" for the purposes of FATA.

In addition, FATA applies to acquisitions of a direct interest in an Australian company by foreign governments and their related entities irrespective of the acquisition value. A "direct interest" is an interest of 10% in the entity but may also include an interest of less than 10% where the investor has entered into business arrangements with the entity or the investor in a position to influence or participate in the management and control or policy of the entity. There are exemptions which can apply to certain acquisitions.

Where FATA applies to the acquisition, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either notified that there is no objection to the proposed acquisition (with or without conditions) or a statutory period has expired without the Federal Treasurer objecting.

An acquisition to which the FATA applies may be the subject of a divestment order by the Federal Treasurer unless the process of notification, and either a non-objection notification or expiry of a statutory period without objection, has occurred. Criminal offences and civil penalties can apply to failing to give notification of certain acquisitions, undertaking certain acquisitions without no objection notification or contravening a condition in a no objection notification.

9.9.3 Overseas Investment Act 2005 (NZ)

Where an entity has direct or indirect New Zealand subsidiaries or assets, the *Overseas Investment Act 2005* (NZ) (**OIA**) may apply to the acquisition of rights or interests in the securities of that entity.

Generally, the OIA applies to the acquisition of rights or interests in securities in an entity that result in an "overseas person" (either alone or with its associates) obtaining or increasing a more than 25% ownership or control interest in that entity, where the target entity has direct or indirect New Zealand subsidiaries or assets.

The OIA currently includes two approval regimes: (i) a consent regime, which applies where the New Zealand assets include certain interests in "sensitive land" for the purposes of the OIA or where the acquisition or New Zealand asset value meets a threshold value (which varies by investor type and jurisdiction); and (ii) a notification and clearance regime, which applies irrespective of the acquisition or New Zealand asset value provided the consent regime does not already apply (this notification and clearance regime is a temporary measure that will be replaced by a narrower call-in regime at a date still to be determined by the relevant Minister). There are exemptions which can apply to certain acquisitions.

Where one of the OIA approval regimes applies to an acquisition, that acquisition may not occur unless notice of it has been given to the Overseas Investment Office and the Overseas Investment Office or relevant government Minister (as applicable) has either granted consent to the acquisition or given a direction order clearing the acquisition (depending on which regime applies).

An acquisition to which the OIA applies may be the subject of a divestment order unless the process of notification, and the granting of either a consent or direction order (as applicable), has occurred. Criminal offences and civil penalties can apply to failing to give notification of relevant acquisitions, undertaking relevant acquisitions without obtaining consent or a direction order or contravening a condition in a consent or direction order.

9.10 Regulatory relief

9.10.1 ASIC exemptions and relief

The Company has applied to ASIC for the following exemptions from, and modifications to, the Corporations Act:

- relief to extend the benefit of ASIC Class Order 14/1000 to the grant Restricted Shares under the Tax Exempt Share Plan; and
- relief under section 741(1)(a) of the Corporations Act from the application of section 707(3) of the Corporations Act to permit the "on-sale" of certain Shares offered other than under this Prospectus.

9.10.2 ASX waivers and confirmations

ASX has granted confirmations in respect of the following ASX Listing Rules:

- confirmation that the Company may seek admission to the official list of ASX under the profits test in Listing Rule 1.2;
- confirmation that the Company may undertake deferred and conditional settlement trading of Shares, subject to certain conditions to be approved by the ASX; and
- confirmations in respect of Listing Rules 7.1, 10.1 and 10.11 in relation to the Shareholder Loan.

The Company has sought (and as at the Prospectus Date has not yet received) the following confirmations from ASX in respect of the following ASX Listing Rules:

- confirmations in respect of Listing Rules 1.1 (condition 12), 7.1, 10.11 and 10.14 in connection with the Executive Rights Plan, IPO Grant and NED Equity Plan;
- confirmations in respect of Listing Rules 1.1 (condition 12) and 7.1 in connection with the Employee Rights Plan, the Tax Exempt Share Plan and the Share Save Plan.

9.11 Taxation considerations

9.11.1 Australian taxation considerations

The following comments provide a general summary of Australian tax issues for Australian tax resident investors who acquire Shares under this Prospectus.

The categories of investors considered in this summary are limited to individuals, certain companies, trusts, partnerships and complying superannuation funds, each of whom hold their shares on capital account.

This summary does not consider the consequences for non-Australian tax resident investors, or Australian tax resident investors who are insurance companies, banks or investors that hold their shares on revenue account or carry on a business of trading in shares or investors who are exempt from Australian tax. This summary also does not cover the consequences for Australian tax resident investors who are subject to Division 230 of the Income Tax Assessment Act 1997 (Cth) (the Taxation of Financial Arrangements or "TOFA" regime).

This summary is based on the law in Australia in force at the time of issue of this Prospectus. This summary does not take into account the tax law of countries other than Australia. This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. The taxation laws of Australia or their interpretation may change. The precise implications of ownership or disposal of the Shares will depend upon each investor's specific circumstances.

Investors should obtain their own advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

9.11.2 Dividends

Individuals and complying superannuation entities

Where dividends on a Share are distributed, those dividends will constitute assessable income of an Australian tax resident investor. Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in their assessable income in the year they derive the dividend, together with any franking credit attached to that dividend if they are a "qualified person" (refer further comments below). Such investors should be entitled to a tax offset equal to the franking credit attached to the dividend subject to being a "qualified person" or where the investor receives less than $5,000 in franking credits from all sources for the income year. The tax offset can be applied to reduce the tax payable on the investor's taxable income. Where the tax offset exceeds the tax payable on the investor's taxable income in an income year, such investors should be entitled to a tax refund.

Where a dividend paid is unfranked, the investor will generally be taxed at their prevailing tax rate on the dividend received with no tax offset.

Corporate Investors

Corporate investors are required to include both the dividend and associated franking credit in their assessable income subject to being a "qualified person". A tax offset is then allowed up to the amount of the franking credit on the dividend.

An Australian resident corporate investor should be entitled to a credit in its own franking account to the extent of the franking credit attached to the dividend received. Such corporate investors can then pass on the benefit of the franking credits to their own investor(s) on the payment of dividends.

Excess franking credits received cannot give rise to a refund, but may be able to be converted into carry forward tax losses.

Trusts and partnerships

Investors who are trustees (other than trustees of complying superannuation entities) or partnerships should include the franking credit in their assessable income in determining the net income of the trust or partnership. Subject to being a "qualified person", the relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the franking credit received by the trust or partnership.

Shares held at risk

The benefit of franking credits can be denied where an investor is not a "qualified person" in which case the investor will not be able to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a qualified person, an investor must satisfy the holding period rule including, if necessary, the related payment rule.

The holding period rule requires an investor to hold the Shares "at risk" for more than 45 days continuously, in the period beginning the day after the day on which the investor acquires the Shares and ending on the 45th day after the day on which the Shares become ex-dividend. The date the Shares are acquired and disposed of are ignored for the purposes of determining the 45 day period. Any day on which an investor has a materially diminished risk or loss of opportunity for gain (through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the investor held the Shares "at risk". This holding period rule is subject to certain exceptions. Special rules apply to trusts and beneficiaries.

Under the related payment rule, a different testing period applies where the investor has made, or is under an obligation to make, a related payment in relation to a dividend. A related payment is one where an investor or their associate passes on the benefit of the dividend to another person. The related payment rule requires the investor to have held the Shares at risk for a period commencing on the 45th day before, and ending on the 45th day after the day the Shares become ex-dividend. Practically, this should not impact investors who do not pass the benefit of the dividend to another person. Investors should obtain their own tax advice to determine if these requirements have been satisfied.

Dividend washing rules can apply such that no tax offset is available (nor is an amount required to be included in your assessable income) for a dividend received. Investors should consider the impact of these rules having regard to their own personal circumstances.

9.11.3 Capital Gains Tax

The disposal of a Share by an investor will be a capital gains tax ("**CGT**") event. A capital gain will arise where the capital proceeds on disposal exceed the cost base of the Share (broadly, the amount paid to acquire the Share plus any transaction costs). In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds from the sale.

A CGT discount may be applied against the capital gain (after reduction of total capital gains by capital losses) where the investor is an individual, complying superannuation entity or trustee, the Shares have been held for more than 12 months and certain other requirements have been met. Where the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than a trust that is a complying superannuation entity) may be reduced by one half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one third, after offsetting current year or prior year capital losses.

Where the investor is the trustee of a trust that has held the Shares for more than 12 months before disposal the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. Investors that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss will be realised where the reduced cost base of the Shares exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the investor in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other assessable income.

9.11.4 Stamp Duty

Investors should not be liable for stamp duty in respect of their acquisition of Shares under the Prospectus, unless they acquire, either alone or with an associated/related person, an interest of 90% or more in the Issuer. Under current stamp duty legislation, no stamp duty would ordinarily be payable by investors on any subsequent transfer of Shares while the Shares remain quoted on the ASX.

Investors should seek their own advice as to the impact of stamp duty in their own particular circumstances.

9.11.5 Goods and Services Tax

Investors should not be liable for GST in respect of their investment in Shares. Investors may not be entitled to claim full input tax credits in respect of any GST paid on costs incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by investors in this respect.

9.11.6 Tax file numbers (TFN)

Investors are not required to quote their Tax File Number (**TFN**) or, where relevant, Australian Business Number (**ABN**) to the Company. However, if a valid TFN, a valid ABN or exemption details are not provided, Australian income tax may be required to be deducted by the Company from distributions and/or unfranked dividends at the maximum marginal tax rate plus any relevant levy (e.g. Medicare levy). Australian income tax should not be required to be deducted by the Company in respect of fully franked dividends.

Resident investors may be able to claim a tax credit/rebate (as applicable) in respect of any tax withheld on dividends in their income tax returns.

9.12 Consents to be named and disclaimers of responsibility

Each of the parties listed below in this Section 9.12, each a consenting party, to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility, for any statements in or omissions form this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the parties listed below has given and has not, at the time of lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of statements in this Prospectus that are specified below in the form and context in which the statements appear:

- each of Credit Suisse (Australia) Limited and Goldman Sachs Australia Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as joint global co-ordinator, joint bookrunner and joint lead manager to the Offer in the form and context in which it is named;
- each of KKR Capital Markets LLC and Royal Bank of Canada, Sydney Branch has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as joint bookrunner and joint lead manager to the Offer in the form and context in which it is named;
- National Australia Bank Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Manager to the Offer in the form and context in which it is named;
- each of Commonwealth Securities Limited and Escala Partners Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Manager to the Offer in the form and context in which it is named;
- Gilbert + Tobin has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian legal adviser (other than in relation to taxation matters) to the Company in relation to the Offer in the form and context in which it is named;
- Deloitte Corporate Finance Pty Ltd, has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant to the Company in relation to the Financial Information in the form and context in which it is named and to the inclusion of its Investigating Accountant's Report on the Financial Information set out in Section 8 in the form and context in which it appears in this Prospectus;
- PricewaterhouseCoopers has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as tax adviser to the Company in the form and context in which it is so named;
- Reunion Capital Partners has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Financial Advisor to the Company in the form and context in which it is so named;
- Deloitte Touche Tohmatsu has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as auditor to the Company in the form and context in which it is so named; and

- Boardroom Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Share Registry of the Company in the form and context in which it is named. Boardroom Pty Limited has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to the Company. Boardroom Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

9.13 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under the Prospectus are governed by the laws applicable in New South Wales, Australia and each Applicant submits to the exclusive jurisdiction of the courts of New South Wales, Australia.

9.14 Statement of Directors

This Prospectus is authorised by each director of the Company who consents to its lodgement with ASIC and its issue. Each Director confirms that they have made enquiries and nothing has come to their attention to suggest that the Company is not continuing to earn profit from continuing operations up to the date of this Prospectus.

9.15 Selling restrictions

Canada (British Columbia, Ontario and Quebec provinces)

This document constitutes an offering of New Shares only in the Provinces of British Columbia, Ontario and Quebec (**Provinces**), only to persons to whom New Shares may be lawfully distributed in the Provinces, and only by persons permitted to sell such securities. This document is not a prospectus, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons who are "accredited investors" within the meaning of National Instrument 45-106 – *Prospectus Exemptions*, of the Canadian Securities Administrators.

No securities commission or authority in the Provinces has reviewed or in any way passed upon this document, the merits of the New Shares or the offering of the New Shares and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of New Shares or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the New Shares in the Provinces must be made in accordance with applicable Canadian securities laws. While such resale restrictions generally do not apply to a first trade in a security of a foreign, non-Canadian reporting issuer that is made through an exchange or market outside Canada, Canadian purchasers should seek legal advice prior to any resale of the New Shares.

The Company as well as its directors and officers may be located outside Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company or its directors or officers. All or a substantial portion of the assets of the Company and such persons may be located outside Canada and, as a result, it may not be possible to satisfy a judgment against the Company or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside Canada.

Any financial information contained in this document has been prepared in accordance with Australian Accounting Standards and also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. Unless stated otherwise, all dollar amounts contained in this document are in Australian dollars.

Statutory rights of action for damages and rescission. Securities legislation in certain Provinces may provide a purchaser with remedies for rescission or damages if an offering memorandum contains a misrepresentation, provided the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's Province. A purchaser may refer to any applicable provision of the securities legislation of the purchaser's Province for particulars of these rights or consult with a legal adviser.

Certain Canadian income tax considerations. Prospective purchasers of the New Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of the New Shares as there are Canadian tax implications for investors in the Provinces.

Language of documents in Canada. Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the New Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

Cayman Islands

No offer or invitation to subscribe for New Shares may be made to the public in the Cayman Islands or from within the Cayman Islands.

European Union

This document has not been, and will not be, registered with or approved by any securities regulator in the European Union. Accordingly, this document may not be made available, nor may the New Shares be offered for sale, in the European Union except in circumstances that do not require a prospectus under Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union (**Prospectus Regulation**).

In accordance with Article 1(4)(a) of the Prospectus Regulation, an offer of New Shares in the European Union is limited to persons who are "qualified investors" (as defined in Article 2(e) of the Prospectus Regulation.

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (**SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance.

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (**FMC Act**). The New Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (**SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an "institutional investor" (as defined in the SFA) or (ii) an "accredited investor" (as defined in the SFA). If you are not an investor falling within one of these categories, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Switzerland

The New Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or on any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the New Shares constitutes a prospectus or a similar notice, as such terms are understood under art. 35 of the Swiss Financial Services Act or the listing rules of any stock exchange or regulated trading facility in Switzerland.

Neither this document nor any other offering or marketing material relating to the New Shares may be publicly distributed or otherwise made publicly available in Switzerland. The New Shares will only be offered to investors who qualify as "professional clients" (as defined in the Swiss Financial Services Act). This document is personal to the recipient and not for general circulation in Switzerland.

No offering or marketing material relating to the New Shares has been, nor will be, filed with or approved by any Swiss regulatory authority or authorised review body. In particular, this document will not be filed with, and the offer of New Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the New Shares.

The New Shares may not be offered or sold in the United Kingdom by means of this document or any other document, except in circumstances that do not require the publication of a prospectus under section 86(1) of the FSMA. This document is issued on a confidential basis in the United Kingdom to "qualified investors" within the meaning of Article 2(e) of the UK Prospectus Regulation. This document may not be distributed or reproduced, in whole or in part, nor may its contents be disclosed by recipients, to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together '**relevant persons**'). The investment to which this document relates is available only to relevant persons. Any person who is not a relevant person should not act or rely on this document.

10 Significant accounting policies

Interest Income and Interest Expense

Loans and advances are measured on an amortised cost basis on the balance sheet. Revenue is 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 ("**EIR**") 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 in interest income.

Interest expense is also measured on an EIR basis and includes costs directly associated with the bringing to account the funding facilities used to fund the Group's lending assets and funding received from the AOFM. These are transaction costs incurred by Pepper Money Limited in facilitating the issue of debt securities. These costs are amortised to the combined income statement over the average expected life of the debt securities using the effective interest method. On a consolidated basis, these costs are included as part of the amortised cost of the debt securities.

Lending Fee Income

Lending fee income include fees other than those that are an integral part of EIR) and includes loan fees paid by the customer such as application fees, discharge fees, settlement fees and post-settlement fees. The performance obligation for these fees is met at a point in time (settlement and discharge) when the fee is charged to the customer.

Gain on Sale of Loan Portfolios

Gain on sale of loan portfolios relates to the gain recognised when a portfolio of financials assets is sold to a third party and meetings the criteria for derecognition (see below).

Servicing Fees and Other Income

Servicing fees are negotiated per contract. They include a base and variable component and typically include a performance-based element linked to the achievement of performance milestones, as well as financial outcomes for the owners of the loan assets. The servicing rates charged vary depending on the complexity of the portfolio, size of mandate and other relevant factors.

Servicing fee revenue is recognised over time as the servicing activities are performed and Pepper Money Limited earns the right to consideration, as identified in the contractual pricing arrangements that Pepper Money Limited has with its customers.

Performance fees are recognised when it is highly probable that the performance conditions will be met. The amount is estimated using either the expected value or most likely amount and recognised if, and only if, the revenue is highly probable of not subsequently reversing. Judgement is required to assess the likelihood and the potential amount of a revenue reversal from uncertain future events.

Employee Benefits Expense

Employee benefits expenses are recorded for benefits to employees primarily in respect of wages and salaries, superannuation, 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.

Lending expenses

Lending expenses includes broker trail commission, valuation, trustee, custodian and servicer fees, unrecoverable GST and other lending-related fees which are expensed when incurred.

Loan loss expenses

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

Taxation

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

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

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 combined 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 other assets and liabilities (other than in a business combination) that affects neither the taxable income nor the accounting profit; and
- 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.

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 Pepper Money Limited Group intends to settle them on a net basis.

Intangible Assets

Intangible assets are measured on the cost basis less amortisation and impairment losses.

Intangible assets that have a finite life are amortised on a straight-line basis over the expected useful life of the asset.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are taken to profit or loss at the date of derecognition.

Financial Instruments

Financial assets and financial liabilities are recognised in the balance sheet when Pepper Money Limited becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("**FVTPL**")) are added to, or deducted from, the fair value on recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding, are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income ("**FVOCI**"); and
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

Pepper Money Limited may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which AASB 3 applies, in other comprehensive income ("**OCI**"); and
- may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVOCI

Pepper Money Limited assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the business model of managing the asset. For an asset to be classified and measured at amortised cost or at FVOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding. For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. Pepper Money Limited determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

When a debt instrument measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVOCI are subject to impairment.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; and/or
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

Such assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Equity investments

On initial recognition, Pepper Money Limited classifies its investment in equity instruments either at FVTPL if it is held for trading or at FVOCI. When an equity investment designated as measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity. Pepper Money Limited holds all its equity investments at FVTPL.

Derecognition of financial assets

Pepper Money Limited derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If Pepper Money Limited neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Pepper Money Limited recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If Pepper Money Limited retains substantially all the risks and rewards of ownership of a transferred financial asset, Pepper Money Limited continues to recognise the financial asset and also recognises a collateralised 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/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety, Pepper Money Limited 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 combined 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.

Derecognition of financial liabilities

Pepper Money Limited derecognises financial liabilities when, and only when, Pepper Money Limited's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Modification of financial instruments

Pepper Money Limited accounts for substantial modification of terms of an existing financial instrument or part of it as an extinguishment of the original financial instrument and the recognition of a new financial instrument. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial instrument. If the modification is not substantial, the difference between: (1) the carrying amount of the financial instrument before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Reclassifications

If the business model under which Pepper Money Limited holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying Pepper Money Limited's financial assets.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to Pepper Money Limited or a contract that will or may be settled in Pepper Money Limited's own equity instruments and is a non-derivative contract for which Pepper Money Limited is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of Pepper Money Limited's own equity instruments.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Pepper Money Limited does not have any financial liabilities which are classified at FVTPL, other than derivatives.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities and borrowings are subsequently measured at amortised cost using the EIR method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Fair value measurements and valuation processes

The different levels have been defined as follows:

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2**: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following assets and liabilities are measured at fair value by Pepper Money Limited for financial reporting purposes:

- **Level 2: equity investments at FVTPL**
- **Level 2: debt investments at FVTPL**
- **Level 2: derivative financial assets and liabilities.**

Fair value of assets and liabilities not measured at fair value

Pepper Money Limited considers 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, Pepper Money Limited performs a discounted cash flow valuation to determine fair value at the balance date.

Loans and Advances

Loans and advances includes transaction costs directly attributable to the origination of the loans. Transaction costs include broker fees and commissions capitalised on the balance sheet as part of loans and advances. These costs are amortised to the combined income statement in line with the reduction in the underlying mortgage portfolio as part of the effective interest rate on the mortgage receivables.

Loans and advances are measured at amortised cost using the EIR method as they meet both the following conditions:

- are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that meet the solely payments of principal and interest ("**SPPI**") requirements.

Loan Loss Provisioning

Pepper Money Limited estimates expected future credit losses using an expected credit loss ("**ECL**") model, in line with AASB 9 requirements.

The ECL model includes macroeconomic forecasts such as the annual percentage change in GDP, unemployment rates, cash rates and house price changes. Pepper Money Limited applies four alternative macro-economic scenarios (base case, upside, downside and severe downside) to reflect unbiased, probability-weighted ranges of possible future outcomes in estimating ECL.

Determination of Impairment Losses on Loans and Advances

Pepper Money Limited 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 Pepper Money Limited 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.

Significant increase in credit risk (SICR): Management periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. SICR thresholds require judgement and are used to determine whether an exposure's credit risk has increased significantly since origination.

ECL is determined with reference to the following stages:

- Stage 1: Performing loans (credit risk has not increased significantly since initial recognition): Predominantly loans less than 30 days past due – requires a loss provision equal to the expected loss over the next 12 months.
- Stage 2: Significant increase in credit risk has occurred: the loans and advances not in stage 3 and 30+ days in arrears are within stage 2 and require a loss provision equal to the expected loss over the expected lifetime of the asset.
- Stage 3: Impaired: As a minimum, all the loans and advances 90+ days in arrears are within stage 3. Loans in stage 3 require a lifetime expected credit loss provision incorporating a 100% probability of default.

ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition.

AASB 9 does not define what constitutes a SICR. In assessing whether the credit risk of an asset has significantly increased, Pepper Money Limited considers qualitative and quantitative reasonable and supportable forward-looking information.

Models and assumptions used: Pepper Money Limited uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

The following are key estimations that are expected to have the most significant effect on the amounts recognised in the combined financial statements:

Probability of default ("**PD**"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon. The Pepper Money Limited Group's PDs are estimates considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to consider estimates of future conditions that will impact PD.

Loss Given Default ("**LGD**"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, considering cash flows from collateral.

Establishing the number and relative weightings of forward-looking scenarios for each type of customer type or segment and determining the forward-looking information relevant to each scenario: When measuring ECL, Pepper Money Limited uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Management is responsible for the forward-looking information, including the development of scenarios and the range of weights considered for those scenarios. The inclusion of forward-looking assumptions in the models to calculate the ECL impacts the PD, the determination of whether there has been a SICR, as well as the LGD.

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 EIR method.

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 statement of profit or loss only when the hedged transaction affects the profit or loss.

Derivatives and Hedge Accounting

Pepper Money Limited enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including cross currency interest rate swaps and interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised as profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

Pepper Money Limited designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, or cash flow hedges, as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, Pepper Money Limited documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, Pepper Money Limited documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Pepper Money Limited actually hedges and the quantity of the hedging instrument that Pepper Money Limited actually uses to hedge that quantity of hedged item.

Fair value hedges

Fair value hedges are accounted for as follows:

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

During the year ended 31 December 2020 the fair value movement on the derivatives and the hedged item offset with no significant ineffectiveness.

Cash flow hedges

Cash flow hedges are accounted for as follows:

- the fair value gain or loss associated with the effective portion of the derivative is recognised initially in other comprehensive income (cash flow hedge reserve) and then recycled to the combined income statement in the same periods the hedged item affects the combined income statement. Any ineffective portion of the gain or loss on the hedging instrument is recognised as profit or loss.

Interest Rate Risk

Pepper Money Limited is exposed to interest rate risk because entities in the Pepper Money Limited Group borrow and lend funds at both fixed and floating interest rates. The risk is managed by the use of interest rate swap contracts.

Interest rate swap contracts

Under interest rate swap contracts, Pepper Money Limited agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable Pepper Money Limited to mitigate the cash flow exposures on interest rates and the fair value risk of changing interest rates.

Pepper Money Limited designates the interest rate swaps as cash flow hedges and fair value hedges.

Interest rate swap contracts – cash flow hedges

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, Pepper Money Limited performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates.

Interest rate swap contracts – fair value hedges

Pepper Money Limited also enters into interest rate swap contracts to mitigate the fair value risk of changing interest rates.

Pepper Money Limited has applied the hedge ratio of 1:1 to all hedge relationships.

Foreign Currency Risk

Pepper Money Limited is exposed to exchange rate fluctuations relating to non-Australian dollar borrowings as well as its investments in foreign operations.

Pepper Money Limited uses cross currency interest rate swap contracts to hedge fair value interest rate risk and foreign exchange risk. Pepper Money Limited designates the cross-currency interest rate swap contracts in:

- fair value hedges of changing interest rates on foreign currency fixed rate borrowings;
- cash flow hedges of foreign currency exposure on foreign currency borrowings.

The foreign currency basis spread of a cross currency interest rate swap is excluded from the designation of that financial instrument as the hedging instrument. Changes in fair value of the foreign currency basis spread of a financial instrument is accumulated in the cost of hedging reserve, and is amortised to profit or loss on a rational basis over the term of the hedging relationship.

As the critical terms of the cross-currency interest rate swap contracts and their corresponding hedged items match, Pepper Money Limited performs a qualitative assessment of effectiveness. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the funding structure's credit risk on the fair value of the cross-currency interest rate swap contracts, which is not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

Credit Risk

To manage credit risk, Pepper Money Limited has established a strong Risk Management function with the relevant experience necessary in loan origination, servicing and arrears management.

Pepper Money Limited's primary credit risk exposures relate to its lending activities in its mortgage and asset finance portfolio. The Pepper Money Limited's primary lending activities are concentrated in the Australian and New Zealand markets. The underlying credit risk in the Pepper Money Limited Group's lending activities is commensurate with a geographically diverse residential mortgage and asset finance portfolio, with no large concentration of single customers.

Provisions

Provisions are recognised when Pepper Money Limited has a present obligation (legal or constructive) as a result of a past event, it is probable that Pepper Money Limited 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).

APPENDIX

A

Reconciliation of PGPL Statutory Financial Statements to Pepper ANZ Carve Out Financial Statements

Set out below is a reconciliation of the statutory accounts of Pepper Money (before it was converted into a public company and renamed Pepper Money) and the carve-out accounts (Pepper ANZ) which are presented in Section 4.

A.1 CY2018

$m	Pepper Money Limited (*formerly Pepper Group Pty Limited*) Statutory Income Statement	Rest of World	Reclassification Adjustments[1]	Pepper ANZ Carveout Income Statement
Interest income	826.6	298.7	(22.0)	549.9
Interest expense	(426.5)	(87.9)	19.2	(357.7)
Net interest income	**400.1**	**210.8**	**(2.8)**	**192.2**
Lending fee income	199.1	15.1	140.2	43.8
Lending expense	–	5.6	30.6	(36.2)
Net lending income	199.1	20.7	170.8	7.6
Whole loan sales gain	–	2.4	(9.3)	6.9
Loan losses	(161.3)	(119.7)	–	(41.6)
Servicing fees & other income	54.5	172.7	(126.9)	8.7
Total operating income	**492.5**	**286.8**	**31.8**	**173.9**
Employee benefits expense	(278.5)	(200.8)	(1.3)	(76.4)
General and admin expenses	(95.0)	(49.8)	(36.8)	(8.4)
Fair value losses on AHFS	–	–	–	–
Marketing expense	(13.5)	(4.8)	(0.6)	(8.1)
Occupancy expenses	(19.0)	(13.5)	(0.1)	(5.4)
Technology expense	(25.0)	(10.7)	(2.6)	(11.7)
Other expenses	–	–	–	–
EBITDA	**61.5**	**7.2**	**(9.6)**	**63.9**
Depreciation & Amortisation	(16.9)	(16.8)	9.5	(9.6)
Corporate interest expense	(30.8)	(30.8)	0.1	(0.0)
Share of profit from associates	10.7	10.7	–	–
Profit before tax	**24.6**	**(29.8)**	**-**	**54.3**
Tax expense	(3.6)	12.7	–	(16.3)
Profit from Cont. Operations	**20.9**	**(17.1)**	**-**	**38.0**
Discontinued Operations	–	–	–	–
Statutory profit for the year	**20.9**	**(17.1)**	**-**	**38.0**

1. The income statement presentation for Pepper ANZ reflects disclosures in accordance with the Australian Accounting Standards. Specifically, Net Interest Income is presented based on Effective Interest Yield. CY2018 includes reallocation of costs to align to the go forward presentation of the income statement. There is no impact on the net profit after tax.

A.2 CY2019

$m	Pepper Money Limited (*formerly Pepper Group Pty Limited*) Statutory Income Statement	Rest of World	Pepper ANZ Carveout Income Statement
Interest income	714.4	–	714.4
Interest expense	(445.7)	–	(445.7)
Net interest income	**268.6**	**–**	**268.6**
Lending fee income	53.3	–	53.3
Lending expense	(44.3)	–	(44.3)
Net lending income	9.0	–	9.0
Whole loan sales gain	5.8	–	5.8
Loan losses	(41.2)	–	(41.2)
Servicing fees & other income	5.5	(1.2)	6.7
Total operating income	**247.7**	**(1.2)**	**248.9**
Employee benefits expense	(87.8)	(0.5)	(87.2)
General and admin expenses	(20.1)	(3.9)	(16.2)
Fair value losses on AHFS	(7.0)	(6.9)	(0.1)
Marketing expense	(9.4)	–	(9.4)
Occupancy expenses	(0.0)	1.6	(1.6)
Technology expense	(17.9)	(0.2)	(17.7)
Other expenses	–	–	–
EBITDA	**105.5**	**(11.1)**	**116.6**
Depreciation & Amortisation	(16.8)	8.0	(24.8)
Corporate interest expense	(8.7)	(7.8)	(0.9)
Share of profit from associates	–	–	–
Profit before tax	**80.0**	**(10.8)**	**90.9**
Tax expense	(21.9)	2.6	(24.5)
Profit from Cont. Operations	**58.2**	**(8.2)**	**66.4**
Discontinued Operations	(8.3)	(8.3)	–
Statutory profit for the year	**49.9**	**(16.5)**	**66.4**

A.3 CY2020

$m	Pepper Money Limited (*formerly Pepper Group Pty Limited*) Statutory Income Statement	Rest of World	Pepper ANZ Carveout Income Statement
Interest income	705.9	–	705.9
Interest expense	(353.7)	–	(353.7)
Net interest income	**352.2**	–	**352.2**
Lending fee income	51.3	–	51.3
Lending expense	(44.8)	–	(44.8)
Net lending income	6.5	–	6.5
Whole loan sales gain	9.6	–	9.6
Loan losses	(56.7)	–	(56.7)
Servicing fees & other income	7.3	–	7.3
Total operating income	**318.9**	–	**318.9**
Employee benefits expense	(81.7)	–	(81.7)
General and admin expenses	(21.3)	(1.7)	(19.6)
Fair value losses on AHFS	(5.5)	(0.3)	(5.2)
Marketing expense	(10.4)	–	(10.4)
Occupancy expenses	–	1.5	(1.5)
Technology expense	(19.9)	–	(19.9)
Other expenses	–	–	–
EBITDA	**180.1**	**(0.5)**	**180.6**
Depreciation & Amortisation	(24.3)	0.3	(24.6)
Corporate interest expense	(14.2)	(12.8)	(1.4)
Share of profit from associates	–	–	–
Profit before tax	**141.5**	**(13.0)**	**154.5**
Tax expense	(42.1)	3.8	(45.9)
Profit from Cont. Operations	**99.4**	**(9.2)**	**108.6**
Discontinued Operations	(129.4)	(129.4)	–
Statutory profit for the year	**(30.0)**	**(138.5)**	**108.6**

APPENDIX

B Glossary

Term	Meaning
AAS or **Australian Accounting Standards**	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board.
AASB	Australian Accounting Standards Board.
ABN	Australian business number.
ABS	asset-backed securities.
ADI	authorised deposit-taking institution.
Aggregate Substantial Interest	as defined in Section 9.9.2.
Alternative Documentation	Pepper Money lends to Low Documentation customers by considering alternative forms of documentation that provide evidence of income and capacity to repay loans. Pepper Money conducts analysis of borrowers' latest bank statements and business activity statements to satisfactorily establish borrowers' income and expenses.
Applicant	a person who submits an Application.
Application	an application to subscribe for Shares offered under this Prospectus.
Application Amount or **Application Monies**	the amount accompanying an Application Form submitted by an Applicant.
Application Form	an application form attached to or accompanying this Prospectus (including the electronic form provided by an online application facility).
Asset Finance	a category of Pepper Money product, as defined in Section 2.1.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange that it operates, as the context requires.
ASX Listing Rules	the listing rules of ASX.
ASX Recommendations	the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.
ASX Settlement Operating Rules	the operating rules of ASX Settlement Pty Ltd (ABN 49 008 504 532) and, to the extent that they are applicable, the operating rules of each of ASX and ASX Clear Pty Ltd (ABN 48 001 314 503).
AUM	Pepper Money's total assets under management as explained in Section 4 and reflects the sum of Lending AUM and Servicing AUM.
Australian Major Bank	Commonwealth Bank of Australia, Westpac Banking Corporation, Australia and New Zealand Banking Group and National Australia Bank.
Best Estimate Assumptions	as defined in Section 4.8.2.
BidCo	Red Hot Australia Bidco Pty Limited (ABN 97 620 321 600).
Board or **Board of Directors**	the board of directors of the Company.
Boardroom	Boardroom Pty Limited (ABN 14 003 209 836).
Bridge Facility	as defined in Section 9.5.3.

Term	Meaning
Broker	any ASX participating organisation selected by the Joint Lead Managers to act as a broker to the Offer.
Broker Firm Offer	the offer of Shares under this Prospectus to Australian resident investors who are not Institutional Investors and who receive a firm allocation of Shares from their Broker, as described in Section 7.
Broker Servicing	as defined in Section 3.4.3.1.
Buyer	as defined in Section 9.5.5.
CAGR	compound annual growth rate.
Calendar year or **CY**	year to 31 December.
Capital expenditure	includes investment in property and equipment and intangible software and licensed assets.
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
CGT	capital gains tax.
CHESS	Clearing House Electronic Subregister System operated in accordance with the Corporations Act.
Closing Date	the date on which the Offer is expected to close, being Friday, 21 May 2021 in respect of the Broker Firm Offer, Employee Gift Offer and the Priority Offer. These dates may be varied without prior notice.
Co-Lead Manager	National Australia Bank Limited.
Co-Managers	Commonwealth Securities Limited and Escala Partners Limited.
Company	Pepper Money Limited (ACN 094 317 665).
Completion or **Completion of the Offer**	completion in respect of the issue and/or sale of Shares pursuant to the Offer.
Conforming or **Prime**	home loans adhering to the traditional standard lending criteria of ADIs.
Constitution	the constitution of the Company.
Corporate Debt Facility	as defined in Section 9.5.3.
Corporations Act	*Corporations Act 2001* (Cth).
CPR	the conditional prepayment rate, the proportion of the principal of a pool of loans that is expected to be paid off prematurely in each payment period.
CRE	commercial real estate.
CRR Securities	as defined in Section 9.5.4.
CTI	cost to income.
CY2018	financial year ended 31 December 2018.
CY2019	financial year ended 31 December 2019.
CY2020	financial year ended 31 December 2020.
CY2021F	financial year ended 31 December 2021.

Term	Meaning
Director	a member of the Board.
Directors' Best Estimate Assumptions	as defined in Section 4.8.2, being the General Assumptions and various specific assumptions set out in Section 4.7.
Distribution Partners	Pepper Money's network of distributors.
Dividend Reinvestment Plan	as defined in Section 4.10.
Dividend Replacement Plan Shares	as described in Section 6.7.5.
Effective Interest Rate	as defined in Section 4.2.8.
Eligible Employees	in respect of the Employee Gift Offer, all Australian and New Zealand employees excluding Non-executive Directors, as selected by the Board in its sole discretion.
Employee Gift Offer	the offer made under this Prospectus under which Eligible Employees who have received an Offer from the Company may acquire, at no cost, the nearest number of whole Shares (rounded down) up to a value of $1,000 as described in Section 7.
Employee Rights Plan	as defined in Section 6.7.2.
Equity Loans, Equity Notes, Junior Loans, Junior Notes or **Junior Securities**	investment interests in Term Securitisations or Warehouse Facilities that have a lower priority than other funders in the event of default.
Escrow Deeds	the voluntary escrow deeds entered into between the Company and the Escrowed Shareholders as described in Section 9.5.7.
Escrowed Share	each of the Shares held by the Escrowed Shareholders at Completion of the Offer.
Escrowed Shareholder	each of: • Pepper ANZ HoldCo; and • the Management Shareholders who were issued Shares under the Management Offer.
Executive Rights Plan	as defined in Section 6.7.1.
Existing Shares	in relation to Pepper ANZ HoldCo means all Shares held by Pepper ANZ HoldCo at Completion. in relation to the Management Shareholders, means any Shares issued to Management Shareholders under the Management Offer.
Expected Credit Losses	as defined in Section 3.9.3.
Exposure Period	the period specified in section 727(3) of the Corporations Act, being a minimum period of seven days after the Prospectus Date, during which an Application must not be accepted. ASIC may extend this period to no more than 14 days after the Prospectus Date.
Facility Agreement	as defined in Section 9.5.3.
FATA	*Foreign Acquisitions and Takeovers Act 1975* (Cth).

Term	Meaning
Financial Adviser	Reunion Capital Partners Pty Ltd (ACN 166 432 211).
Financial Information	the financial information described as Financial Information in Section 4.
FMC Act	Financial Markets Conduct Act 2013 (NZ).
Forecast Financial Information	the Pepper Money Forecast Financial Information and Pepper Money Pro Forma Forecast Financial Information as described in Section 4.
Forecast Period	the calendar year ending 31 December 2021.
FPO	as defined in Section 9.15.
FSMA	as defined in Section 9.15.
fSPV	as defined in Section 9.5.4.
FTE	as defined in Section 3.8.2.
Funding Vehicle	a special purpose vehicle, typically a trust, established to fund and hold financial assets as part of a Warehouse Facility or Term Securitisation.
FVTPL	fair value through profit or loss, as defined in Section 4.
General Assumptions	as defined in Section 4.8.1.
GFC	Global Financial Crisis.
GST	goods and services tax imposed in Australia.
HIN	Holder Identification Number for CHESS.
Historical Financial Information	the Pepper Money Financial Information and Pepper Money Pro Forma Financial Information as described in Section 4.
HoldCo Nominee	as defined in Section 9.5.1.2.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Independent Non-Executive Director	each of Mike Cutter, Akiko Jackson, Justine Turnbull and Rob Verlander.
Initial Term	as defined in Section 9.5.1.4.
Institutional Investor	an investor who has been invited to participate in the Institutional Offer and is: • a person in Australia who is a wholesale client under section 761G of the Corporations Act and either a “professional investor” or “sophisticated investor” under sections 708(11) and 708(8) of the Corporations Act; or • an institutional investor in certain other jurisdictions, as agreed between the Company and the Joint Lead Managers, to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any government agency (except one with which the Company is willing in its discretion to comply), and provided that in each case such investors are not in the United States.
Institutional Offer	the invitation to acquire Shares made to Institutional Investors in Australia, and a number of other eligible jurisdictions as described in Section 7.
Investigating Accountant	Deloitte Corporate Finance Pty Limited.

Term	Meaning
Investigating Accountant's Report	the report set out in Section 8.
IPO Grant	Rights granted to the CEO and CFO under the Executive Rights Plan for nil consideration in connection with the Offer.
IPO or **Initial Public Offering** or **Offer**	the offer of New Shares by the Company under this Prospectus.
Joint Lead Managers	Credit Suisse (Australia) Limited, Goldman Sachs Australia Pty Ltd, KKR Capital Markets LLC and Royal Bank of Canada.
Junior Securities	securities which are in substance the most junior class of debt securities issued in a Warehouse Facility or Term Securitisation such that any losses in respect of the assets funded by the Warehouse Facility or Term Securitisation are applied to this class of securities first, also referred to as "first loss" capital.
Key Risks	as defined in Section 5.
KKR Credit	certain funds, accounts and investment vehicles managed and/or advised by KKR Credit Advisors (US) LLC or its affiliates.
Legacy Loans	as defined in Section 6.4.
Lending AUM	as defined in Section 4.
Listing	admission of the Company to the official list of ASX.
loan assets	as defined in Section 9.5.4.
Loan and Other Servicing	a category of Pepper Money product, as defined in Section 2.1.
Low Documentation	customers of Low Documentation loans are loan applicants that do not meet standard bank requirements for satisfactory evidence of income and historical documentation, such as self-employed and small business owners.
LPF	Loan Protection Fee.
LTIP	long term incentive plan.
LVR	loan to value ratio.
Management	current management employees of the Company.
Management Loans	as defined in Section 6.4.
Management Offer	the Offer to acquire Shares made to Management Shareholders as set out in Section 7.7.
Management Shares	Shares issued to Management Shareholders under the Management Offer.
Management Shareholders	current Management of the Company and their related parties who currently hold TopCo Shares and will subscribe for Shares under the Management Offer.
Minority Investors	certain investors who, as at the Prospectus Date, hold TopCo Shares, including Director Des O'Shea and Seumas Dawes.
Mortgages	a category of Pepper Money product, as defined in Section 2.1.
MPF	Mortgage Protection Fee.
NED Equity Plan	non-executive director equity plan.

Term	Meaning
NED Rights	Restricted Rights which may be offered to Non-Executive Directors under the NED Equity Plan.
New Shares	the new shares to be issued by the Company under the Offer.
New Shareholders	holders of New Shares on Completion of the Offer.
Non-Conforming or **Non-Prime**	home loans not adhering to the traditional standard lending criteria of ADIs.
Non-Executive Director	a member of the Board of Directors who does not form part of Management.
Non-Executive Director Shareholders	current Non-Executive Directors who hold Shares immediately prior to Completion.
non-IFRS financial measures	as defined in Section 4.2.8.
NPAT	net profit after tax.
Offer Period	Monday, 17 May 2021 to Friday, 21 May 2021.
Offer Price	$2.89 per Share.
Official List	the official list of entities that ASX has admitted to and not removed from listing.
OIA	*Overseas Investment Act 2005* (NZ).
Option	an option over a Share.
PAF	Pepper Asset Finance Pty Ltd (ACN 165 183 317).
PAYG	pay as you go.
Pepper ANZ or **Pepper ANZ Company**	Pepper Money together with each of its directly or indirectly wholly-owned subsidiaries relating to the Australian and New Zealand businesses and share service operations in the Philippines, and where the context requires, it means any one of them.
Pepper ANZ HoldCo	Pepper Group ANZ Holdco Limited (a company incorporated under the laws of England and Wales, with registered number 6548576) which is indirect wholly-owned subsidiary of Pepper Global TopCo which holds the shareholding of Pepper Global in the Company.
Pepper Global or **Pepper Global Group**	Pepper Global TopCo and each of its directly or indirectly wholly-owned subsidiaries and where the context requires it means any one of them which for the avoidance of doubt excludes Pepper ANZ.
Pepper Global Management	current management employees of the Pepper Global Group.
Pepper Global TopCo	Pepper Global TopCo Limited (129993), the ultimate holding company of Pepper Global Group.
Pepper Direct	Pepper's direct distribution platform including www.Pepper.com.au and supported by a dedicated in-house call centre.
Pepper Money or **the Company**	Pepper Money Limited) (ACN 094 317 665).
Pepper Money Offer Information Line	• inside Australia: 1300 420 250; or • outside Australia: +61 2 8023 5477, and in each case, open from 8.30am to 5.30pm Monday to Friday during the Offer Period.

Term	Meaning
Pepper Money Financial Information	as defined in Table 18 of Section 4.1
Pepper Money Forecast Financial Information	as defined in Table 18 of Section 4.1.
Pepper Money Pro Forma Financial Information	as defined in Table 18 of Section 4.1.
Pepper Money Pro Forma Forecast Financial Information	as defined in Table 18 of Section 4.1.
Pepper Seller Entity	as defined in Section 9.5.5.
Performance Rights	as defined in Section 6.7.1.
PGA	Pepper Group Assets (Australia) Pty Limited (ABN 33 630 648 547)
PGS	Pepper Group Services (Australia) Pty Ltd (ABN 74 630 647 031)
PrimeCredit	PrimeCredit Limited (registered in Hong Kong, company number 56778) and Shenzhen PrimeCredit Limited (registered in Shenzhen Municipality, company number 440301501136032).
Priority Offer	the Offer of Shares to selected investors as agreed between the Company and the Joint Lead Managers as described in Section 7.
Private Term Securitisations	funding transactions that are similar to Public Term Securitisations but which result in Pepper Money raising funds from a single investor or a small number of investors.
Pro Forma	subject to the Pro Forma adjustments explained in Section 4.
Prospectus	this document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document.
Prospectus Date	the date on which a copy of this Prospectus was lodged with ASIC, being 7 May 2021.
Prospectus Regulation	as defined in Section 9.15.
PRS	Pepper Residential Securities.
Provinces	as defined in Section 9.15.
Public Term Securitisations	a pool of loan assets initially funded through one or more Warehouse Facilities are grouped together and sold to a new Funding Vehicle, which then issues securities against those assets to investors in public wholesale capital markets.
relevant persons	as defined in Section 9.15.
Red Hot HoldCo	Red Hot HoldCo Australia Pty Ltd (ACN 620 321 351).
Renewal Terms	as defined in Section 9.5.1.4.
revolving period	as defined in Section 9.5.4.
Restricted Rights	as defined in Section 6.7.1.

Term	Meaning
Restricted Shares	as defined in Section 6.
Rest of World	as defined in Section 4.1.
Restructure	as defined in Section 9.4.
Restructure Warranty	as defined in Section 9.5.1.1.
Rights	rights offered to eligible employees under the Executive Rights Plan.
RMBS	residential mortgage-backed securities.
ROE	return on equity.
SARS	Service Share Appreciation Rights.
Service Rights	as defined in Section 6.
Servicing AUM	as defined in Section 3.
SD	as defined in Section 9.5.5.
Settlement	settlement in respect of the Shares the subject of the Offer occurring under the Underwriting Agreement and associated settlement support arrangements.
SFA	as defined in Section 9.15.
SFO	as defined in Section 9.15.
Share	a fully paid ordinary share in the capital of the Company.
Share Registry	Boardroom Pty Limited (ABN 14 003 209 836).
Share Save Plan	a plan established to facilitate staff salary sacrificing cash remuneration in exchange for SSP Shares on an ongoing basis, with the purpose of supporting employee ownership, engagement and alignment, and reducing cash employment costs.
SRN	Securityholder Reference Number.
SSP	Share Save Plan.
SSP Shares	Share Save Plan Shares.
Shareholder	a holder of Shares.
Shareholder Loan	as defined in Section 9.5.2.
Shareholder Representative Director	each of Michael Culhane and Des O'Shea.
Shareholding	a holding of Shares.
SME	small and medium-sized enterprise.
SPA	as defined in Section 9.5.5.
STIP	short term incentive plan.
Successful Applicant	an Applicant or Institutional Investor who is transferred Shares under the Offer.
Substantial Interest	as defined in Section 9.9.2.
Taxation of Financial Arrangements	as defined in Section 9.11.1.

Term	Meaning
TEP	Tax Exempt Share Plan.
Term Securitisation	an arrangement under which a pool of financial assets is sold to a Funding Vehicle which funds those financial assets in the capital markets through an issue of limited-recourse debt securities generally having a legal final maturity similar to the expected term of the financial assets in the pool, and includes Private Term Securitisations and Public Term Securitisations.
TFN	tax file number.
Tier B	as defined in Section 3.2.1.3.
Tier C	as defined in Section 3.2.1.3.
TLA or **Trademark Licence Agreement**	as defined in Section 9.5.1.4.
TOFA	Taxation of Financial Arrangements provisions contained in Division 230 of the *Income Tax Assessment Act 1997* (Cth).
TopCo Shares	ordinary shares in Pepper Global TopCo.
TSR	total shareholder return.
Tracker Share	a tracker share on issue in Pepper Global TopCo, as described in Section 6.3.6.
Tracker Shareholder	a holder of a Tracker Share.
Trade Marks	as defined in Section 9.5.1.4.
TSA or **Transitional Services Agreement**	as defined in Section 9.5.1.4.
Underwriting Agreement	the underwriting agreement between the Company and the Joint Lead Managers in relation to the Offer, as described in Section 9.5.6.
VWAP	volume weighted average price.
Warehouse Facility	an arrangement under which financial assets are originated in the name of, or sold to, a Funding Vehicle which funds those financial assets through drawing on committed funds provided by funding banks and/or other investors during a relatively short term availability period. Funding is through a limited-recourse facility for a term which does not necessarily match the term of those financial assets. Warehouse Facilities are often established with a view to selling the assets to another Funding Vehicle pursuant to a Term Securitisation or as part of a Whole Loan Sale.
White-Label	Pepper Money provides an unbranded product or service for the originator to sell and distribute the product or service under its own brand to sell to their customers.
Whole Loan Sale	an arrangement under which pools of financial assets are sold to an unrelated third-party purchaser which purchases those financial assets using its own resources and/or a funding structure for which they are the sponsor. Pepper Money may continue to act as servicer of the financial assets if agreed with the purchaser, and may make an investment in the pool in connection with that appointment.
Working capital	prepayments, other debtors, accruals and provisions.

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Pepper Money Limited
ACN 094 317 665

Broker Firm Offer Application Form

Broker Reference – Stamp Only

Broker Code | Advisor Code

This is an Application Form for Shares in Pepper Money Limited (ACN 094 317 665) (**Company**) on the terms set out in the Prospectus lodged with the Australian Securities and Investments Commission on 7 May 2021 (or any other supplementary or replacement prospectus) (**Prospectus**). The expiry date of the Prospectus is 13 months after 7 May 2021. Defined terms in the Prospectus have the same meaning in this Application Form. You may apply for a minimum of $2,000 worth of Shares. This Application Form and your cheque or bank draft must be received by **5.00pm Sydney time 21 May 2021**.

This Application Form is important. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. The Prospectus contains information relevant to a decision to invest in the Shares of the Company and you should read the entire Prospectus carefully before applying for Shares. By applying under the Broker Firm Offer, you make the acknowledgements, declarations, representations and warranties set out in the Prospectus.

The Share Registry's Privacy Policy (**Privacy Policy**) also sets out important information relating to the collection, use and disclosure of all personal information that you provide to the Company. Please ensure that you and all relevant individuals have read the Privacy Policy carefully before submitting this Application Form. The Privacy Policy can be found on the website https://boardroomlimited.com.au/corp/privacy-policy

To meet the requirements of the *Corporations Act 2001* (Cth) (**Corporations Act**), this Application Form must not be distributed to another person unless included in, or accompanied by a complete and unaltered copy of the Prospectus. A person who gives another person access to this Application Form must, at the same time and by the same means, give the other person access to the Prospectus. During the Offer period, the Company will send you a free paper copy of the Prospectus if you have received an electronic Prospectus and you ask for a paper copy.

PLEASE FOLLOW THE INSTRUCTIONS TO COMPLETE THIS APPLICATION FORM (SEE REVERSE) AND PRINT CLEARLY IN CAPITAL LETTERS USING BLACK OR BLUE PEN.

A **Number of Shares you are applying for**

Minimum of $2,000.00 worth of shares

x $2.89 per Share =

B **Total amount payable**

$

C **Write the name(s) you wish to register the Shares in *(see reverse for instructions)***

Applicant #1

Name of Applicant #2 or <Account Designation>

Name of Applicant #3 or <Account Designation>

D **Write your postal address here**

Number/Street

Suburb/Town | State | Postcode

E **CHESS participant – Holder Identification Number (HIN)**

X

Important please note *if the name and address details above in sections C and D do not match exactly with your registration details held at CHESS, any Shares issued as a result of your Application will be held on the Issuer Sponsored subregister.*

F **Enter your Tax File Number(s), ABN, or exemption category**

Applicant #1 | Applicant #2

Applicant #3

G **Cheque payment details –** PIN CHEQUE(S) HERE

Please enter details of the cheque(s) that accompany this application.

Name of drawer of cheque	Cheque no.	BSB no.	Account no.	Cheque Amount A$

H **Contact telephone number (daytime/work/mobile)**

I **Email address**

Declaration

By submitting this Application Form with your Application Amount, I/we declare that I/we:

- ✓ have read the Prospectus in full;
- ✓ have read the Privacy Policy (available at https://boardroomlimited.com.au/corp/privacy-policy/ in full;
- ✓ have received a copy of the electronic Prospectus or a print out of it;
- ✓ have completed this Application Form in accordance with the Prospectus and the instructions on the reverse of the Application Form; and
- ✓ declare that all details and statements made by me/us are complete and accurate;
- ✓ agree and consent to the Company collecting, holding, using and disclosing my/our personal information in accordance with the Prospectus;
- ✓ where I/we have been provided information about another individual, warrant that I/we have obtained that individual's consent to the transfer of their information to the Company;
- ✓ acknowledge that once the Company accepts my/our Application Form, I/we may not withdraw it;
- ✓ apply for the number of Shares that I/we apply for (or a lower number allocated in a manner allowed under the Prospectus);
- ✓ acknowledge that my/our application may be rejected by the Company in consultation with the Lead Manager in its absolute discretion;
- ✓ authorise the Lead Manager and the Company and their respective officers and agents to do anything on my/our behalf necessary (including the completion and execution of documents) to enable the Shares to be allocated to me/us;
- ✓ am/are over 18 years of age;
- ✓ agree to be bound by the constitution of the Company;
- ✓ acknowledge that neither the Company nor any person or entity guarantees any particular rate of return on the Shares, nor do they guarantee the repayment of capital;
- ✓ represent, warrant and agree that I/we am/are not in the United States or a US Person and am/are not acting for the account or benefit of a US Person;
- ✓ represent, warrant and agree that I/we have not received the Prospectus outside Australia and am/are not acting on behalf of a person resident outside Australia unless the Shares may be offered in my/our jurisdiction without contravention of the security laws of the jurisdiction or any need to register the Prospectus, the Shares or the Offer; and
- ✓ Declare that I/we give the representations set out in section 7.14 of the Prospectus.

Guide to the Broker Firm Offer Application Form

YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM.

Please complete all relevant sections of the appropriate Application Form using BLOCK LETTERS. These instructions are cross-referenced to each section of the Application Form.

Instructions

A If applying for Shares insert the ***number*** of Shares for which you wish to subscribe at Item **A** (not less than $2,000.00 worth of shares). Multiply by A$2.89 to calculate the total Application Amount for Shares and enter the ***A$amount*** at Item **B**.

C Write your ***full name***. Initials are not acceptable for first names.

D Enter your ***postal address*** for all correspondence. All communications to you from the Company will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

E If you are sponsored in CHESS by a stockbroker or other CHESS participant you may enter your CHESS HIN if you would like the allocation to be directed to your HIN. **NB: your registration details provided must match your CHESS account exactly.**

F Enter your Australian ***tax file number*** (TFN) or ABN or exemption category, if you are an Australian resident. Where applicable, please enter the TFN/ABN of each joint Applicant. Collection of TFN's is authorised by taxation laws. Quotation of your TFN is not compulsory and will not affect your Application Form.

G Complete ***cheque details*** as requested by your broker, or contact your broker to arrange payment for these Shares. Cheques must be in Australian currency, and cheques must be drawn on an Australian bank.

H Enter your ***contact details*** so we may contact you regarding your Application Form or Application Monies.

I Enter your ***email address*** so we may contact you regarding your Application Form or Application Amount or other correspondence.

Correct Form of Registrable Title

Note that ONLY legal entities can hold the Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and surname is required for each natural person. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registrable Title	Incorrect Form of Registrable Title
Individual	Mr John David Smith	J D Smith
Company	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings	Mr John David Smith & Mrs Mary Jane Smith	John David & Mary Jane Smith
Trusts	Mr John David Smith <J D Smith Family A/C>	John Smith Family Trust
Deceased Estates	Mr Michael Peter Smith <Est Lte John Smith A/C>	John Smith (deceased)
Partnerships	Mr John David Smith & Mr Ian Lee Smith	John Smith & Son
Clubs/Unincorporated Bodies	Mr John David Smith <Smith Investment A/C>	Smith Investment Club
Superannuation Funds	John Smith Pty Limited <J Smith Super Fund A/C>	John Smith Superannuation Fund

Lodgment

Mail your completed Application Form with your cheque(s) or bank draft attached to your Broker.

Broker Contact Number	Broker Name

The Offer closes at 5.00pm Sydney Time on 21 May 2021

It is not necessary to sign or otherwise execute the Application Form.

If you have any questions as to how to complete the Application Form, please contact Boardroom Pty Limited on 1300 737 760 within Australia and + 61 2 9290 9600 outside Australia.

Privacy Statement

Pepper Money Limited advises that Chapter 2C of the Corporations Act requires information about its shareholders (including your name, addresses and details of shares held) to be included in the Company's share register. Information is collected to administer your shareholding and if some or all of the information is not collected then it might not be possible to administer your shareholding. Your personal information may be disclosed to the Company. To obtain access to your personal information or more information on how the Company collects, stores, uses and disclosures your information please contact the Company at the address or telephone number in the Prospectus.

Corporate directory

Company's Registered Office

Pepper Money Limited
Level 27, 177 Pacific Highway
North Sydney NSW 2060

Joint Global Co-Ordinators, Joint Bookrunners and Joint Lead Managers

Credit Suisse (Australia) Limited
Level 31, Gateway 1 Macquarie Place
Sydney NSW 2000

Goldman Sachs Australia Pty Ltd
Level 48, Governor Philip Tower
1 Farrer Place
Sydney NSW 2000

Joint Bookrunners and Joint Lead Managers

KKR Capital Markets LLC
30 Hudson Yards, Suite 7500
New York, New York, 10001

Royal Bank of Canada
Level 47, 2 Park Street
Sydney NSW 2000

Co-Lead Manager

National Australia Bank Limited
Level 25, NAB House
255 George Street
Sydney NSW 2000

Co-Managers

Commonwealth Securities Limited
Tower 1, 201 Sussex Street
Sydney NSW 2000

Escala Partners Limited
Level 25, 1 Farrer Place
Sydney NSW 2000

Financial Adviser

Reunion Capital Partners Pty Ltd
Level 10, 56 Pitt Street
Sydney NSW 2000

Legal Adviser

Gilbert + Tobin
Level 35, Tower 2, International Towers Sydney
200 Barangaroo Avenue
Sydney NSW 2000

Investigating Accountant

Deloitte Corporate Finance Pty Limited
Level 9, Grosvenor Place
225 George Street
Sydney NSW 2000

External Auditor

Deloitte Touche Tohmatsu
Level 9, Grosvenor Place
225 George Street
Sydney NSW 2000

Tax Adviser

PricewaterhouseCoopers Securities Ltd
One International Towers Sydney
Watermans Quay
Barangaroo NSW 2000

Share Registry

Boardroom Pty Limited
Level 12, Grosvenor Place
225 George Street
Sydney NSW 2000

Offer information line

Between 8.30am and 5.30pm (Sydney time), Monday to Friday

Toll free within Australia
1300 420 250

Outside Australia
+61 2 8023 5477

Websites

www.peppermoneyoffer.com.au
www.pepper.com.au