peppermoney

Pepper Money Limited (ASX:PPM)
(formerly Pepper Group Pty Limited)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 30 June 2021

peppermoney

Appendix 4D

1. Company details

Name of entity:	Pepper Money Limited (formerly Pepper Group Pty Limited)
ACN:	094 317 665
ABN:	55 094 317 665
Reporting period:	For the half-year ended 30 June 2021 (the "period")
Prior comparative period:	For the half-year ended 30 June 2020

2. Results for announcement to the market

All comparisons to half-year ended 30 June 2020:

			$M
Net interest income from continuing operations	Up	1.9% to	176.2
Total operating income from continuing operations	Up	24.5% to	177.2
Net profit after income tax (NPAT) from continuing operations	Up	41.1% to	56.0

2. Dividends

No interim dividend in respect to the half-year ended 30 June 2021 was paid or declared (30 June 2020: $nil).

3. Net tangible assets per ordinary share

	30 June 2021 $	31 December 2020 $
Net tangible assets per ordinary share	1.02	2.56

4. Explanation of results

A reference in this Appendix 4D to the "Group" is a reference to Pepper Money Limited and its controlled entities.

This information should be read in conjunction with the annual financial report for the year ended 31 December 2020 and with any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange ("ASX") Listing Rules.

Following a corporate restructure, which completed on 31 March 2021 (the "Restructure"), Pepper Money Limited listed on the ASX effective 25 May 2021, and is now 60.59% owned by Pepper Group ANZ Holdco Limited ("Holdco"). Holdco is independently a wholly-owned subsidiary of Pepper Global Topco Limited ("Topco"). As part of the Restructure, all of the Pepper Group's businesses outside of Australia and New Zealand ("ANZ") were sold to other subsidiaries of Topco.

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' report and the financial statements for the period.

Pro-forma earnings from continuing operations

To reflect the Group's Pro-forma earnings the NPAT has been adjusted to separate one-off items associated with the Initial Public Offering ("IPO"). Management believe the disclosure of the Pro-forma NPAT provides additional insight into the underlying performance for the period, by excluding one-off, non-recurring items.

The following table reconciles the Group's statutory NPAT to the unaudited Pro-forma NPAT for the period in accordance with Australian Accounting Standards ("AASB").

	Half-year ended	
	30 June 2021 $M	30 June 2020 $M
Statutory NPAT	56.0	39.7
Standalone costs	–	(0.5)
Redundancy and other restructuring	–	0.7
Public company costs	(0.3)	(0.9)
Employee remuneration plans	(0.2)	(1.5)
Corporate debt costs	8.4	5.5
Offer costs	6.6	–
Tax impact of adjustments	(4.4)	(1.0)
Pro-forma NPAT	66.1	42.0

5. Details of associate investments and joint venture entities

The Group did not have any associates or joint venture entities during the period.

6. Foreign entities

The financial information presented for foreign entities which are consolidated is presented in accordance with AASB.

7. Audit

This report is based on the condensed consolidated half-year financial report reviewed by Deloitte Touche Tohmatsu.

Michael Culhane
Chair

24 August 2021

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Directors' report

The Directors of Pepper Money Limited ("Pepper Money" or the "Company") (formerly Pepper Group Pty Limited) present their report, together with the interim financial statements of Pepper Money Limited and its controlled entities ("the Group") for the half-year ended 30 June 2021 ("the period") which is designed to provide shareholders with a clear and concise overview of Pepper Money's operations and the financial position of the Group. The review complements the financial report.

In order to comply with the provisions of the *Corporations Act 2001*, the Directors' report is as follows:

Directors

The following persons were Directors of the Company during the period and up to the date of this report:

- **Michael Culhane:** Chair and Shareholder Representative
- **Mario Rehayem:** Chief Executive Officer, Pepper Money Limited
- **Des O'Shea:** Non-Executive Director and Shareholder Representative (appointed 6 May 2021)
- **Mike Cutter:** Independent Non-Executive Director (appointed 6 May 2021)
- **Akiko Jackson:** Independent Non-Executive Director (appointed 6 May 2021)
- **Justine Turnbull:** Independent Non-Executive Director (appointed 6 May 2021)
- **Rob Verlander**: Independent Non-Executive Director (appointed 6 May 2021)
- **Therese McGrath**: Chief Financial Officer, Pepper Money Limited (resigned 6 May 2021)

Company Secretary

John Williams

Principal activities

Pepper Money is a leading Non-Bank Lender in the Australian and New Zealand Mortgage market and the Asset Finance market in Australia.

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

The three core segments which Pepper Money operates in are as follows:

- **Mortgages**: financing residential home loans and small balance commercial real estate loans;
- **Asset Finance**: financing a range of asset types for consumer and commercial customers; and
- **Loan and Other Servicing:** independent loan servicing for mortgages and personal loans, and broker administration servicing.

Pepper Money's operating model combines risk-based credit underwriting expertise with customer focused operations, servicing and collections management. Together these deliver strong performance in both the lending and servicing businesses across multiple asset classes from residential and commercial mortgages to consumer and commercial asset financing.

Corporate restructure

A corporate restructure was completed on 31 March 2021 ("the Restructure"). As part of the Restructure:

- Pepper Global Topco Limited ("Topco") was established as the new ultimate parent company of Pepper Money Limited.
- Topco owns 100% of the shares in Pepper Global Midco Limited ("Midco") which in turn owns 100% of the shares in Pepper Group ANZ Holdco Limited ("ANZ Holdco").
- ANZ Holdco became the sole pre-Initial Public Offering ("IPO") shareholder of Pepper Money Limited (and its controlled entities) and is the Australian holding company of the Group.
- Assets and liabilities that did not pertain to the ongoing business activities and operations in Australia and New Zealand or its shared service operations in the Philippines were sold into separate holdings outside of the Group. These represent discontinued operations and are presented in more detail in Note 8.

Listing of Pepper Money Limited on the Australian Securities Exchange ("ASX") and use of proceeds

On 30 April 2021, Pepper Group Pty Limited converted to a public company and was renamed Pepper Money Limited.

Pepper Money Limited listed on the ASX on 25 May 2021 under the ticker PPM at an issue price of $2.89 per share. $500.1 million was raised from the offer, representing 39.41% of the issued share capital of the Company. The remaining 60.59% of the share capital is held by ANZ Holdco.

Costs of $13.1 million associated with the share issue were offset against the proceeds of the IPO. The Group used the gross proceeds of $500.1 million from the IPO to repay $125.0 million of Corporate Debt Facility and $188.4 million of Shareholder loans.

Presentation of financial information

Results and key financial drivers of the current and prior year are set out below in the Directors report and are on a Pro-forma basis, reflecting the one-off adjustments as a result of the IPO.

During the period, Pepper Money has amended the presentation of the Financial Report by changing reporting from A$ thousands to A$ millions.

Results and review of operations

For the half-year ended 30 June 2021, the Group reported Statutory NPAT of $56.0 million, up 41.1% compared with the prior comparative period ("PCP"). This was driven by strong performance across both Mortgages and Asset Finance, lower cost of funds and lower collective provisions. Higher operating expenses were driven by one-off expenses associated with the IPO.

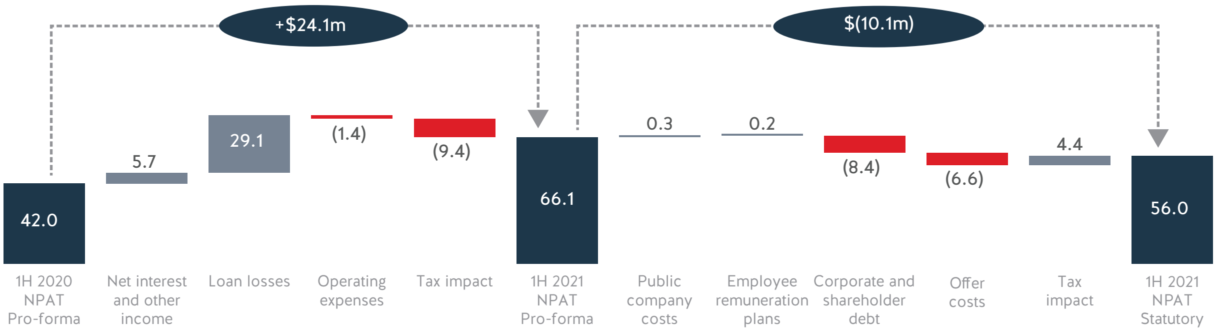
Adjusting for the inclusion of $6.6 million of one-off IPO-related costs, total expenses, including depreciation and amortisation and corporate interest, increased marginally by $1.4 million driven by higher employee benefit expense, partially offset by reduced general and administration expenses.

Summary financial results (continuing operations)

A$M	1H 2021 Statutory	1H 2021 Pro-forma[1]	1H 2020 Pro-forma	$M Change Pro-forma	% Change Pro-forma
Net interest income	176.2	176.2	172.9	3.3	1.9%
Other operating income	15.1	15.1	12.7	2.4	19.0%
Loan losses	(14.1)	(14.1)	(43.2)	29.1	67.4%
Total operating income	**177.2**	**177.2**	**142.4**	**34.8**	**24.5%**
Employee benefits expense	(48.4)	(48.6)	(43.4)	(5.3)	(12.1%)
Marketing expense	(4.5)	(4.5)	(4.6)	0.0	0.6%
Technology expense	(9.6)	(9.6)	(9.0)	(0.6)	(6.6%)
Other operating expenses	(17.4)	(6.5)	(9.3)	2.8	30.4%
Depreciation and amortisation expense	(10.7)	(10.7)	(12.7)	2.0	15.7%
Corporate interest expense	(6.7)	(2.9)	(2.5)	(0.4)	(16.0%)
Tax expense	(23.9)	(28.3)	(18.9)	(9.4)	(49.4%)
Net profit from continuing operations	**56.0**	**66.1**	**42.0**	**24.1**	**57.3%**

1. Pre tax Pro-forma adjustments for 1H 2021 total $(14.5) million, are one-off in nature as they relate to the IPO and are not expected to occur in the future. Public company costs $0.3 million (30 June 2020 $0.9 million), Employee remuneration plans $0.2 million (30 June 2020 $1.5 million), Corporate and Shareholder debt costs $(8.4) million (30 June 2020: $(5.5) million) and IPO Offer costs of $(6.6) million (30 June 2020: nil).

Below is a period on period Pro-forma NPAT movement and 1H 2021 Pro-forma NPAT to Statutory NPAT movement by key line item:



Key financial drivers

Originations ($B)

1H 2021	1H 2020	% Change
3.7	2.6	40.4%

Originations grew $1.1 billion on PCP with strong growth reported across both asset classes: Mortgages up $0.7 billion, +33.9% on PCP and Asset Finance up $0.4 billion, 65.8% on PCP.

Net interest income ($M)

1H 2021	1H 2020	% Change
176.2	172.9	1.9%

Net interest income grew $3.3 million, 1.9% on PCP, driven by higher Lending AUM. Rates benefitted from a higher Asset Finance mix in the portfolio partially offset by lower portfolio rates in Mortgages due to increased prepayments.

Total operating income ($M)

1H 2021	1H 2020	% Change
177.2	142.4	24.5%

Strong originations and AUM coupled, favourable NIM mix from Asset Finance, lower cost of funds, and lower loan loss expense drives Total operating income up by $34.8 million, 24.5% on PCP.

Lending AUM ($B)

1H 2021	1H 2020	% Change
14.3	13.6	5.2%

Lending AUM as at 30 June 2021 was up $0.7 billion from June 2020 close. Mortgages increased $0.2 billion, +1.9%, and Asset Finance increased $0.5 billion, +20.0% on PCP.

Loan loss expense ($M)

1H 2021	1H 2020	% Change
(14.1)	(43.2)	67.4%

Loan loss expense in 1H 2020 included a COVID-19 Management overlay of $18.0 million. Strong credit performance over 1H 2021 has resulted in a provision release of $5.0 million in Asset Finance, Mortgages provisions being held.

Pro-forma Expense before D&A and Corporate Interest ($M)

1H 2021 Pro-forma	1H 2020 Pro-forma	% Change
(69.3)	(66.2)	(4.7%)

Pro-forma expenses before depreciation and amortisation and corporate interest increased by $3.1 million, 4.7% on PCP as measures implemented in 1H 2020 at the onset of COVID-19 have unwound. This includes recruitment and other discretionary cost measures.

Funding and capital

Pepper Money maintains access to a diversified funding platform supported by established funding relationships and a Board approved funding policy.

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

Term securitisations: loans that are initially funded via a warehouse facility can be pooled together and refinanced by being sold to a new funding vehicle that issues limited-recourse asset-backed securities to public market investors.

Whole loan sales: Pepper Money can create additional liquidity by selling specific pools of mortgage loans that allows the release and recycle of capital.

During the period, the following Residential Mortgage Backed Securities (RMBS) were issued to optimise funding costs and term duration, and facilitate assets under management growth:

I-**Prime 2021-1** was settled on 25 March 2021 and is a domestic prime issue with a total issuance size of $750.0 million.

PRS 29 was settled on 5 May 2021 and is a domestic non-conforming issue with a total issuance size of $750.0 million.

Corporate debt

During the period, the Group entered into a secured syndicated facility agreement to provide an IPO bridge facility drawn to $325.0 million. Following the listing on 25 May 2021, $125.0 million of the facility was repaid with proceeds raised through the IPO and the residual $200.0 million converted to a secured syndicated 3-year revolving facility. As at 30 June 2021, $50.0m of the total facility of $200.0 million was drawn down.

Consolidated balance sheet (extract)

Assets	30 June 2021 $M	31 December 2020 $M
Cash and cash equivalents	836.7	885.5
Receivables	19.2	5.4
Loans and advances	14,339.7	13,310.8
Derivative financial assets	3.9	1.1
Deferred tax assets	49.1	52.3
Intangible assets	35.0	38.9
Assets held for sale or distribution	–	8,769.2
Other asset categories	36.6	37.2
Total assets	**15,320.2**	**23,100.4**

Liabilities	30 June 2021 $M	31 December 2020 $M
Current tax	24.3	37.8
Borrowings	14,655.3	13,797.0
Derivative liabilities	43.7	86.7
Liabilities directly associated with assets held for sale	–	8,388.4
Other liability categories	63.6	55.6
Total liabilities	**14,786.9**	**22,365.5**

The Group had loans and advances as at 30 June 2021 of $14.3 billion (31 December 2020: $13.3 billion), reflecting a 7.7% net portfolio growth. The Group originated $3.7 billion in new financial assets in the period (31 December 2020: $4.6 billion). The asset growth was financed by the issuance of two term securitisation issues totalling $1.5 billion.

Dividends on ordinary shares

In line with the disclosure in Pepper Money's Prospectus, no interim dividend will be paid in 2021.

COVID-19

Pepper Money continues to monitor closely the development of the COVID-19 pandemic and its impact on market conditions.

In preparing the financial statements, Management have considered the impact of COVID-19:

- During the period the COVID-19 outbreak has had materially less impact on the lending business than experienced in PCP and has had limited impact on loan servicing business revenues.
- As at 30 June 2021, none of the Group's loans and advances were subject to COVID-19 hardship payment deferral (31 December 2020: 0.7%). This equated to nil Mortgage loans (31 December 2020: 160) and nil Asset Finance loans (31 December 2020: 113).
- As at 30 June 2021, the Group maintained a COVID-19 management overlay of $18.0 million for potential future economic loss directly related to the impacts of COVID-19 (31 December 2020: $23.0 million).
- The current coverage remains adequately provisioned to withstand future losses and continues to reflect a cautious approach to managing risks as the economic recovery from COVID-19 continues, particularly as customers transition from COVID-19 temporary support measures, delays in vaccine rollout occur, further instances of lock downs across Australian States and the closure of State borders.

Refer to Note 3(B) for additional information for COVID-19 impact on credit risk management and the provision for expected credit losses.

Events since the end of the period

Impact of COVID-19

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In accordance with AASB 110 Events after the Reporting Period, the Group considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lock downs implemented across Australian States, the closure of State borders and the extension of further fiscal stimulus packages.

The Group did not identify any subsequent events caused by COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. In addition, no other material non-adjusting subsequent events were identified requiring disclosure in the financial statements. The Group continues to monitor and review forward-looking assumptions and economic scenarios.

Other than as noted above, there has not been any matter or circumstance occurring subsequent to the end of the period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future periods.

Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page and forms part of this report.

Rounding of amounts

The Company is a company of a kind referred to in ASIC Corporations *(Rounding in Financials/Directors' Reports) Instrument 2016/191*, relating to the "rounding off" of amounts in the directors' report. Unless otherwise indicated, amounts in the directors' report and half-year financial report have been rounded off in accordance with the instrument to the nearest million dollars.

This report is signed in accordance with a resolution of the Directors made pursuant to s306(3) of the *Corporations Act 2001*.

On behalf of the Directors of Pepper Money Limited.

Michael Culhane
Chair

24 August 2021

Auditor's independence declaration

Deloitte.

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

24 August 2021

Dear Board Members

Pepper Money Limited

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

As lead audit partner for the review of the financial statements of Pepper Money Limited for the half-year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
Chartered Accountants

Independent auditor's report

to the Directors of Pepper Money Limited

Deloitte.

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Independent Auditor's Review Report to the Members of Pepper Money Limited

Conclusion

We have reviewed the half-year financial report of Pepper Money Limited and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2021, and the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration as set out on pages 9 to 36.

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

- Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001.*

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 Review of a *Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Directors' Responsibilities for the Half-year Financial Report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Deloitte.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

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

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
Chartered Accountants

Sydney, 24 August 2021

Directors' declaration

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

a. there are reasonable grounds to believe that Pepper Money Limited will be able to pay its debts as and when they become due and payable; and

b. the condensed consolidated financial statements of Pepper Money Limited (as defined in Note 1) including the notes set out on pages 10 to 40:

    i. are in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to s303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Michael Culhane
Chair

24 August 2021

Condensed consolidated statement of profit or loss

		Half-year ended	
	Notes	30 June 2021 $M	30 June 2020 $M
Interest income	2(A)	338.9	360.4
Interest expense[1]		(162.7)	(187.5)
Net interest income from continuing operations[1]		**176.2**	**172.9**
Lending fee income	2(B)	28.3	26.6
Lending expense	2(B)	(22.8)	(22.9)
Whole loan sales gain		4.5	4.8
Loan losses	2(E)(a)	(14.1)	(43.2)
Servicing fees and other income	2(B)	5.1	4.1
Total operating income from continuing operations		**177.2**	**142.3**
Employee benefits expense	2(C)	(48.4)	(42.6)
Marketing expense		(4.5)	(4.6)
Technology expense		(9.6)	(9.0)
General and admin expense	2(C)	(17.4)	(9.3)
Depreciation and amortisation expense		(10.7)	(12.6)
Corporate interest expense		(6.7)	(6.5)
Operating expenses from continuing operations		**(97.3)**	**(84.6)**
Profit before income tax from continuing operations		79.9	57.7
Income tax expense		(23.9)	(18.0)
Net profit after income tax from continuing operations		**56.0**	**39.7**
Profit/(loss) from discontinued operations	8	182.2	(71.2)
Net profit/(loss) after income tax		**238.2**	**(31.5)**
Equity holders of Pepper Money Limited		238.2	(31.4)
Non-controlling interests		–	(0.1)
		Cents per share	Cents per share
Earnings per share (EPS)	2(D)		
Basic EPS from continuing operations		19.44	15.79
Basic EPS from discontinued operations		63.21	(28.27)
Diluted EPS from continuing operations		19.38	15.79
Diluted EPS from discontinued operations		63.01	(28.27)

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

1. Excludes corporate interest expense.

Condensed consolidated statement of comprehensive income

	Half-year ended	
	30 June 2021 $M	**30 June 2020 $M**
Net profit after tax from continuing operations	56.0	39.7
Net profit/(loss) after tax from discontinued operations	182.2	(71.2)
Net profit/(loss) after tax	**238.2**	**(31.5)**
Other comprehensive income/(expense) that may be recycled to profit or loss		
Currency translation movement	12.3	(20.6)
Cash flow hedge reserve movement	34.3	(45.0)
Other reserve movement	0.5	–
Income tax relating to items that may be recycled to profit or loss	(8.9)	10.2
Total other comprehensive expense that may be recycled to profit or loss	**38.2**	(55.4)
Total comprehensive income/(expense) for the period	**276.4**	**(86.9)**
Total comprehensive income/(expense) attributable to:		
Owners of Pepper Money Limited	276.4	(86.8)
Non-controlling interests	–	(0.1)

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

Condensed consolidated statement of financial position

	Notes	As at 30 June 2021 $M	As at 31 December 2020 $M
Assets			
Cash and cash equivalents	3(A)	836.7	885.5
Receivables		19.2	5.4
Loans and advances	3(B)	14,339.7	13,310.8
Derivative financial assets		3.9	1.1
Other financial assets	3(C)	18.5	19.6
Other assets		7.6	4.0
Deferred tax assets		49.1	52.3
Property, plant and equipment		10.5	13.6
Intangible assets		35.0	38.9
Assets held for sale or distribution	8	–	8,769.2
Total assets		**15,320.2**	**23,100.4**
Liabilities			
Trade payables		10.9	15.2
Current tax		24.3	37.8
Provisions		21.4	18.8
Borrowings	4(A)	14,655.3	13,797.0
Derivative liabilities		43.7	86.7
Other liabilities		31.3	21.6
Liabilities directly associated with assets held for sale or distribution	8	–	8,388.4
Total liabilities		**14,786.9**	**22,365.5**
Total net assets		**533.3**	**734.9**
Equity			
Issued capital	6(A)	729.3	601.8
Other equity	6(B)	–	(19.5)
Other reserves	6(B)	(15.6)	(45.6)
Retained earnings		(180.4)	197.2
Total equity attributable to owners of Pepper Money Limited		**533.3**	**733.9**
Non-controlling interests		–	1.0
Total equity		**533.3**	**734.9**

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed consolidated statement of changes in equity

	Issued capital $M	Other equity $M	Other reserves[1] $M	Retained earnings $M	Attributable to owners of the Group $M	Non-controlling interests $M	Total equity $M
1 January 2020							
Opening balance	601.8	(19.4)	1.4	226.1	809.9	1.1	811.0
Profit for the period	–	–	–	(31.4)	(31.4)	(0.1)	(31.5)
Currency translation movements	–	–	(20.4)	–	(20.4)	–	(20.4)
Cash flow hedge movements	–	–	(35.0)	–	(35.0)	–	(35.0)
Retirement benefit remeasurements	–	–	–	–	–	–	–
Total comprehensive income	–	–	(55.4)	(31.4)	(86.8)	(0.1)	(86.9)
Dividends paid	–	–	–	–	–	–	–
Capital contribution	–	–	–	0.6	0.6	0.5	1.1
Other movements	–	–	–	(0.1)	(0.1)	–	(0.1)
Balance as at 30 June 2020	**601.8**	**(19.4)**	**(54.0)**	**195.2**	**723.6**	**1.5**	**725.1**
1 January 2021							
Opening balance	601.8	(19.5)	(45.6)	197.2	733.9	1.0	734.9
Profit for the period	–	–	–	238.2	238.2	–	238.2
Currency translation movements	–	–	12.3	–	12.3	–	12.3
Cash flow hedge movements	–	–	25.4	–	25.4	–	25.4
Share-based payments	–	–	0.5	–	0.5	–	0.5
Total comprehensive income	–	–	38.2	238.2	276.4	–	276.4
Distribution to owners of the Group	(395.5)	–	–	(620.0)	(1,015.5)	–	(1,015.5)
Issue of shares under the IPO	500.1	–	–	–	500.1	–	500.1
Shareholder loan converted to equity	41.6	–	–	–	41.6	–	41.6
IPO costs converted to equity	(13.1)	–	–	–	(13.1)	–	(13.1)
Other equity movements	(5.6)	19.5	(8.2)	4.2	9.9	(1.0)	8.9
Balance as at 30 June 2021	**729.3**	**–**	**(15.6)**	**(180.4)**	**533.3**	**–**	**533.3**

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

1. Comprises currency translation reserve, cash flow hedge reserve and share-based payments reserve. Refer to Note 6(B) Other equity and other reserves for detail.

Condensed consolidated statement of cash flows

	Half-year ended	
	30 June 2021 $M	30 June 2020 $M
Cash flows from operating activities		
Interest received	330.4	361.9
Interest paid	(174.6)	(196.2)
Receipts from loan fees and other income	31.6	28.5
Payments to suppliers and employees	(94.7)	(83.5)
Payments of net loans to borrowers	(1,202.7)	(722.8)
Proceeds from sale of loan portfolios	178.5	230.9
Income taxes paid	(38.9)	(5.3)
Operating activities from discontinued operations	(660.7)	(709.0)
Net cash (outflow) from operating activities	**(1,631.1)**	**(1,095.5)**
Cash flows from investing activities		
Payments for property, plant and equipment	(3.7)	(3.5)
Net payments for investments	(1.2)	(5.7)
Investing activities from discontinued operations	(32.8)	(21.9)
Net cash (outflow)/inflow from disposal of businesses	(219.5)	140.0
Net cash (outflow)/inflow from investing activities	**(257.2)**	**108.9**
Cash flows from financing activities		
Proceeds from borrowings	5,321.5	3,907.3
Repayment of borrowings	(4,879.1)	(3,472.1)
Repayment of lease liability	(4.1)	(4.1)
Proceeds from issuance of capital	488.2	3.9
Financing activities from discontinued operations	913.0	566.6
Net cash inflow from financing activities	**1,839,5**	**1,001.6**
Net (decrease)/increase in cash and cash equivalents	(48.8)	15.0
Cash and cash equivalents at the beginning of the financial year	885.5	865.1
Cash and cash equivalents at end of period	**836.7**	**880.1**

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

1. Basis of preparation

A. Reporting entity

These condensed consolidated financial statements are for the consolidated Group ("the Group") consisting of Pepper Money Limited ("Pepper Money" or "the Company") (formerly Pepper Group Pty Limited) and its controlled entities and were approved and authorised for issue in accordance with a resolution of the Directors on 24 August 2021.

Pepper Money Limited is a public company limited by shares domiciled in Australia and was listed on the ASX on 25 May 2021. The ASX ticker code is PPM.

B. Basis of preparation

The condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments that have been measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report for the financial year ended 31 December 2020, except for as detailed below.

The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

C. Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This interim financial report does not contain all disclosures of the type normally found within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the annual financial report. This report should be read in conjunction with the annual financial report for the financial year ended 31 December 2020 and any public announcements made up until the date of this interim financial report.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. The results of discontinued operations are presented separately in the income statements and statements of comprehensive income with comparative information restated accordingly. The balance sheet is not required to be restated for the effect of discontinued operations.

D. Corporate restructure

A corporate restructure completed on 31 March 2021 ("the Restructure"). As part of the Restructure:

- Pepper Global Topco Limited ("Topco") was established as the new ultimate parent company of Pepper Money Limited.
- Topco owns 100% of the shares in Pepper Global Midco Limited ("Midco") which in turn owns 100% of the shares in Pepper Group ANZ Holdco Limited.
- ANZ Holdco became the sole pre-IPO shareholder of Pepper Money Limited (and its controlled entities).
- Assets and liabilities that did not pertain to the ongoing business activities and operations in Australia and New Zealand or its shared service operations in the Philippines were sold into separate holdings outside of the Group. These represent discontinued operations and are presented in more detail in Note 8.

E. Critical estimates, judgements and errors

The preparation of the condensed consolidated financial statements requires the use of judgement, estimates and assumptions about the carrying value of assets, liabilities, revenues and expenses that are not readily apparent from other sources. Should different assumptions or estimates be applied, the resulting values may change, impacting the net assets and income of the Group. These estimates and assumptions are reviewed on an ongoing basis.

The nature of significant estimates and judgements that the Directors have made in the process of applying the Group's accounting policies, are noted below.

a. Determination of impairment losses on loans and advances

The Group recognises an allowance for expected credit losses ("ECLs" or "Provisions for loan impairment") for all debt instruments held at either amortised cost, or fair value through other comprehensive income. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, where applicable, cash flows from the sale of collateral held.

The Group's approach to ECL estimation in respect of loans and advances is detailed below. The ECL required in respect of other credit risk exposures is not significant to the Group.

ECL for Loans and Advances

The Group's approach consists of three components, being:

1. Modelled collective ECL.
2. Post-model overlay adjustments.
3. Specific provisions.

ECLs are monitored on a monthly basis as part of the Group's overall approach to monitoring, measuring and managing credit risk. A portfolio approach is taken in managing credit risk, with the individual management of facilities / customers applied to address specific circumstances as the credit life-cycle develops. The Group has therefore aligned its approach to estimating ECLs with its credit risk management practices and the requirements of AASB 9, which incorporates segmentation between the following three stages at each reporting date:

	Stage	Required provision	Provision approach
Stage 1	Performing loans and advances less than 30 days past due	Losses that arise from a default event in the next 12 months	Modelled collective provision, post-model overlay adjustments
Stage 2	All loans and advances where a significant increase in credit risk ("SICR") has occurred since origination (see below for further detail)	All loans and advances where a significant increase in credit risk has occurred since origination (see below for further detail). Loss provision equal to the expected loss over the expected lifetime of the asset	Modelled collective provision, post-model overlay adjustments
Stage 3	All loans and advances 90+ days in arrears, other loans and advances which are considered credit impaired (e.g. where the counterparty has been declared bankrupt)	Lifetime ECL provision incorporating a 100% probability of default	Modelled collective provision, post-model overlay adjustments, specific provisions

Key estimates for ECLs

The following items are the key matters of judgement in estimating ECL's:

Significant increase in credit risk ("SICR")	An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group considers qualitative (e.g. watch lists), quantitative (e.g. 30+ days in arrears), and other reasonable, supportable forward-looking information.
Probability of default ("PD")	An estimate of the likelihood of default over a given time horizon. The 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")	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.
Forward-looking adjustments	Captures estimated impacts of scenario weighted macro-economic assumptions. The Group uses macro-economic factors including unemployment rates, target cash rate and the House Price Index analysed across four scenarios – base case, uplift, downturn and severe downturn. The Group's analysis is informed by a combination of publicly available economic forecasts in respect of the Australian and New Zealand economies, combined with Group portfolio information, judgements and analysis.
Post-model overlay adjustments	The Group applies adjustments to the modelled ECL result to ensure that the provision balance is sufficiently responding to changes in the credit risk profile of the loans which are not modelled in the above assumptions. This includes adjustments for model risk, credit policies and processes and the impact of COVID-19.

COVID-19 specific considerations

Consistent with industry guidance and with the approach for the year ended 31 December 2020, the Group does not consider that customer support payment deferrals specifically as part of COVID-19 support packages result in a significant increase in credit risk, and therefore do not trigger an automatic migration from Stage 1 (12-month ECL) to Stage 2 (Lifetime ECL).

While the Group has estimated the impact of COVID-19, there continues to be significant uncertainty with respect to the ongoing impacts including the following matters, which directly affect the level of ECL provision required:

- potential for a deterioration in economic outlook and thus an increase credit risk and losses, particularly given reduced government stimulus and customers transitioning off COVID-19 temporary support measures;
- delays in vaccine rollout and further instances of state and local lock downs being imposed;
- expected signs of portfolio stress (arrears and losses) are largely yet to be observed in Australia; and
- there is limited data to compare against and credit quality indicators have been insulated by repayment deferrals and government support initiatives.

b. COVID-19 impact

The Group has considered the impact of COVID-19 in determining the estimates, assumptions and judgements used to prepare the interim financial report. The key condensed consolidated statement of financial position items and related disclosures impacted by COVID-19 are set out below:

Loans and advances: While the methodologies applied in the ECL calculations remained unchanged from those applied in the annual financial report for the financial year ended 31 December 2020, the Group has incorporated estimates, assumptions and judgements specific to the impact of COVID-19 and the associated support packages in the measurement of ECL through forward looking economic adjustments. Refer to Note 3(B) for further detail.

Software: The Group conducted an assessment of whether there were any indicators of impairment on software at the reporting date to assess whether the impact of COVID-19 and other business impacts had led to an asset impairment.

Investments in Other Financial Assets: When assessing the fair value of equity investments at 30 June 2021, the impact of COVID-19 on each of the investment's operating models was considered.

Derivative assets and liabilities: Given recent market volatility, the Group reviewed the appropriateness of credit valuation adjustment to its valuations. The impact of changes of inputs to the valuations is also considered in terms of the classification of exposures in the fair value hierarchy and transfers within the fair value hierarchy. Assessments considered if forecasted cash flows in cash flow hedge relationships remain highly probable at 30 June 2021 and hedge accounting remains appropriate.

F. COVID-19

COVID-19 and the subsequent quarantine measures, travel and trade restrictions imposed by Australia and other countries, including New Zealand, have caused disruption to the operations of Pepper Money Limited and the wider economy.

These impacts have been partially offset by a range of financial stimulus and support implemented by the Australian and New Zealand governments. The Group's conservative approach to credit risk, strong funding relationships and disciplined cost management undertaken by Management have largely mitigated the impact of COVID-19 on the business and operations.

Given COVID-19, Management has considered the following while preparing the condensed consolidated financial statements:

- considered the financial impact on the Group and areas of the condensed consolidated financial statements affected to determine the disclosures required, and evaluated if any additional areas of judgement or estimation uncertainty beyond what has been disclosed existed;
- updated forward-looking models when measuring ECL to assess any significant increase in credit risk, and for the impairment of financial and non-financial asset classes and disclosures (refer to Note 3(B) for further detail);
- evaluated information available after the reporting date, but before the issuance of the combined financial report, and updated the disclosures in the combined financial report;
- reviewed market performance, both Australia and internationally, from previous economic downturns, including the financial crisis of 2008;
- reviewed economic forecasts from a range of sources, including the Australian Government (Reserve Bank of Australia) and forecasting units, for example Bloomberg; and
- reviewed external market communications to identify other COVID-19 related impacts.

The Group continues to monitor closely the development of the COVID-19 pandemic and its impact on market conditions.

G. Software as a Service (SaaS) arrangements

The IFRS Interpretations Committee (IFRIC) recently clarified how current accounting standards apply to Software-as-a-Service (SaaS) arrangements. More specifically, the IFRIC considered:

- the accounting for SaaS arrangements and concluded that for many such arrangements the substance is that the entity has contracted to receive services rather than the acquisition (or lease) of software assets. This is because, in a cloud-based environment, the SaaS contract generally only gives the customer the right to receive access to the cloud provider's application software, rather than a license over the IP i.e. control over the software code itself.
- how an entity should account for configuration and customisation costs incurred in implementing these (SaaS) service arrangements. The IFRIC concluded that these costs should be expensed, unless the criteria for recognising a separate asset are met.

The Group currently has SaaS arrangements in place with some costs capitalised on the balance sheet. However, there is a mixture of Platform-as-a-Service and SaaS costs that have been capitalised and the IFRIC decision only relates to SaaS arrangements. Accordingly, this requires a careful analysis of each arrangement to determine exactly how the IFRIC clarification will impact the Group. Consequently, the Group is in the process of assessing the arrangements in place and the potential impact and will perform a full review in the second half of 2021. Any adjustments arising from this review will be reflected in the annual report for the year ending 31 December 2021.

H. Accounting standards adopted in the period

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IBOR Reform and AASB 9 Financial Instruments Relief Amendments

The Group has adopted AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform Phase 2* (effective 1 January 2021).

The Group is exposed to the USD LIBOR interest rate benchmark in its hedge accounting relationships, which is subject to interest rate benchmark reform. The Financial Conduct Authority (FCA) which governs the IBOR settings have declared that from 30 June 2023 all USD LIBOR settings will either cease to be published or will no longer be representative of the underlying market conditions, which will trigger fallback clauses on underlying agreements linked to this benchmark. The Group's exposures to the USD LIBOR benchmark arise on derivative and non-derivative financial assets and liabilities in the form of USD denominated debt and associated hedging contracts. These are designated in cash flow hedge relationships affected by the interest rate benchmark reform with hedged items including USD denominated floating rate debt, and hedging instruments including USD LIBOR linked cross currency swaps.

Fallback provisions

Of the USD denominated debt agreements, Pepper Residential Securities ("PRS") Trust numbers 22 to 24 inclusive do not have precise fallback provisions that specify the alternative benchmark rate to be used in the event that USD LIBOR is no longer available, or has ceased to become representative. Fallback provisions for these agreements will need to be bilaterally negotiated with bondholders – the target date for completion of these negotiations is during calendar year 2022. PRS25 has specific fallback provisions which reference the Secured Overnight Financing Rate (SOFR) and will not require further negotiation or amendments.

The existing non-derivative financial liabilities that are exposed to the cessation of USD LIBOR are as follows:

Non-derivative financial instrument prior to transition	Maturing in	Nominal Currency (USD M)	Total Nominal (AUD M)[1]	Hedge Accounting	Transition Progress
USD LIBOR Linked Investor Note for Pepper Residential Securities Trust No. 22	2023	59.5	81.7	Designated in cash flow hedge (see below)	Alternative reference rate to be negotiated and agreed with bond holders expected in 2022
USD LIBOR Linked Investor Note for Pepper Residential Securities Trust No. 23	2024	38.2	53.6	Designated in cash flow hedge (see below)	Alternative reference rate to be negotiated and agreed with bond holders expected in 2022
USD LIBOR Linked Investor Note for Pepper Residential Securities Trust No. 24	2024	35.8	51.6	Designated in cash flow hedge (see below)	Alternative reference rate to be negotiated and agreed with bond holders expected in 2022
USD LIBOR Linked Investor Note for Pepper Residential Securities Trust No. 25	2024	57.2	83.9	Designated in cash flow hedge (see below)	Expected to transition in 2023

For derivatives, the Group intends to adhere to the October 2020 ISDA Fallbacks Protocol to govern all new and existing ISDA agreements. In addition, the derivative hedge contracts are linked to the underlying non-derivative liabilities in relation to the setting of the USD interest rate in the documentation for these agreements.

1. *Total Notional (AUD M) is based off the exchange rate derived from the overlaid cross currency swap hedging contract for each note series.

The existing derivative financial instruments exposed to the cessation of USD LIBOR are as follows:

Derivative financial instrument prior to transition	Maturing in	Nominal Currency (USD M)	Total Nominal (AUD M)[2]	Hedge Accounting	Transition Progress
Receive USD LIBOR/ Pay AUD BBSW Cross Currency Swap	2023	59.5	81.7	USD floating rate debt of same notional amortising profile and maturity of the swap	Linked to underlying hedged item
Receive USD LIBOR/ Pay AUD BBSW Cross Currency Swap	2024	38.2	53.6	USD floating rate debt of same notional amortising profile and maturity of the swap	Linked to underlying hedged item
Receive USD LIBOR/ Pay AUD BBSW Cross Currency Swap	2024	35.8	51.6	USD floating rate debt of same notional amortising profile and maturity of the swap	Linked to underlying hedged item
Receive USD LIBOR/ Pay AUD BBSW Cross Currency Swap	2024	57.2	83.9	USD floating rate debt of same notional amortising profile and maturity of the swap	Linked to underlying hedged item

Key risks

The key risks facing the Group associated with benchmark reform are as follows:

- **Interest rate basis risk** – there are two components to this as follows:
  - If the bilateral negotiations with bondholders are not successfully concluded before the cessation of USD LIBOR, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into and is not captured by the Group's interest rate risk management strategy.
  - Interest rate risk basis may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times.

This risk is mitigated through the linking of the interest rate benchmark of the non-derivative liability and the derivative hedging contract in the respective documentation and fallback provisions.

- **Liquidity risk** – there are fundamental differences between USD LIBOR and SOFR, the preferred alternative benchmark. SOFR is an overnight benchmark index with no embedded credit or term liquidity spread. This will require a benchmark adjustment spread to be applied to the SOFR rate in order to equate the alternative benchmark to the previous benchmark. Market accepted practice will be applied to negotiate and determine the benchmark adjustment spread, with the ISDA Fallbacks Protocol as a guideline.
- **Accounting** – if the transition to the alternative benchmark is finalised in such a way as to not permit continuation of hedge accounting in existing hedge relationships, increased volatility in profit or loss and hedge ineffectiveness could result. The Group is aiming to agree changes to the contracts that would allow AASB 9 reliefs to apply, and is not intending to close-out or novate derivatives, or enter into new on market derivatives where derivatives have been designated in hedge relationships.
- **Litigation risk** – if no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group intends to work closely with all counterparties to avoid this from occurring.
- **Operational risk** – the Group is seeking to implement a Treasury & Banking System with hedge accounting capabilities that meet the requirements for transitioning hedge relationships to alternative benchmarks.

Progress towards managing the transition to alternative benchmark rates

The Group has reviewed all existing financial liabilities and derivatives that have floating linked exposure to IBOR benchmarks and identified those contracts that require amendments to fallback clauses be negotiated to implement the transition from IBOR rates to a new market accepted benchmark at an agreed point in time.

2. *Total Notional (AUD M) is based off the exchange rate derived from the overlaid cross currency swap hedging contract for each note series.

In addition, all newly transacted floating rate liabilities will be linked to an alternative benchmark rate, or if linked to IBOR rates, will contain detailed fallback clauses clearly referencing an alternative fallback rate and the trigger events which will result in a transition.

In regards to the Group's derivatives that reference IBOR rates, the intention is to adhere to the ISDA Fallbacks Protocol published in late 2020, in agreement with existing counterparties. This will ensure all legacy trades will, on the cessation of IBOR, follow the fallback clauses provided in the protocol.

The Group will apply the IBOR reform amendments to AASB 9 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends. The Group expects this uncertainty will continue until all contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

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

2. Financial performance

A. Interest income

	Half-year ended	
	30 June 2021 $M	30 June 2020 $M
Interest from customers	337.7	357.3
Bank interest	1.2	3.1
Total interest income	**338.9**	**360.4**

B. Non-interest income and expenses

Lending fee income

	Half-year ended	
	30 June 2021 $M	30 June 2020 $M
Settlement fees	12.7	10.9
Post-settlement fees	15.6	15.7
Total lending fee income	**28.3**	**26.6**

Lending expense

	Half-year ended	
	30 June 2021 $M	30 June 2020 $M
Trail commission expense	(10.8)	(11.1)
Trustee and other SPV expenses	(1.3)	(1.7)
Enforcement costs	(2.5)	(2.7)
GST input tax loss	(2.1)	(1.8)
Origination expense	(3.7)	(3.1)
Other lending expense	(2.4)	(2.5)
Total lending expense	**(22.8)**	**(22.9)**

Servicing fees and other income

	Half-year ended	
	30 June 2021 $M	30 June 2020 $M
Loan and other servicing income	2.8	2.1
Other income	2.3	2.0
Total servicing fees and other income	**5.1**	**4.1**

Other income includes miscellaneous income items which:

- are recognised in the period in which it is earned; and
- may be allocated to different reportable operating segments.

C. Expenses

Employee benefits expense

	Half-year ended	
	30 June 2021 $M	30 June 2020 $M
Salaries and wages	(38.1)	(37.8)
Employee incentive and share based payments	(7.9)	(3.3)
Other personnel expenses	(2.4)	(1.5)
Total employee benefits expense	**(48.4)**	**(42.6)**

On 11 May 2021, the Group made an employee gift offer to each eligible employee of 346 ordinary shares in the capital of the Group, which at grant date equated to a value of $1,000 per eligible employee. In total, 159,482 ordinary shares were granted with a total value at grant date of $0.5 million. The share-based payments expense of $0.5 million (30 June 2020: $nil) is recognised in Employee incentive and share based payments.

General and admin expense

	Half-year ended	
	30 June 2021 $M	30 June 2020 $M
Intercompany charges[3]	(4.2)	(1.5)
Postage, printing and office expenses	(0.7)	(0.7)
Professional expenses	(7.9)	(4.2)
Travel and entertainment expenses	(0.5)	(0.7)
Financing fees and expenses	(0.5)	(0.3)
Insurance expenses	(0.1)	–
Occupancy expense	(0.9)	(0.7)
ASX listing fee	(0.7)	–
Other expenses	(1.9)	(1.2)
Total general and admin expense	**(17.4)**	**(9.3)**

As part of the IPO, various IPO costs were incurred and include Joint Lead Managers' underwriting fees, legal and accounting due diligence fees, tax and structuring advice, associated consulting fees and advisory fees.

3. For the six months to 30 June 2021, interest expense on the related party Shareholder Loan of $3.0 million (six months to 30 June 2020: nil).

Costs incurred that are directly attributable and incremental to the issuance of new equity (net of tax) have been recognised in equity as an offset to the value of capital raised. The Group exercised judgement in determining an allocation methodology (between equity and expense) for costs which relate to both the issuance of new equity and other activities. The Group's methodology was determined with reference to the number of new shares issued in raising capital, and the nature and purpose of services rendered in incurring costs. All other costs were recognised as an expense in the table above.

Costs have been apportioned between equity and expense with $13.1 million offset against issued capital on the balance sheet and the following amounts recognised as an expense:

- $5.9 million in professional expenses; and
- $0.7 million in ASX listing fee.

D. Earnings per share

a. Methodology

Basic earnings per share ("EPS") is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the net profit or loss after tax attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period for the effects of all dilutive potential ordinary shares, which include the share options granted to employees.

b. EPS calculation inputs

	Half-year ended	
	30 June 2021 $M	**30 June 2020 $M**
Profit from continuing operations attributable to ordinary equity holders of the Group	**56.0**	**39.7**
Weighted average number of ordinary shares (WANOS) used in the calculation of basic EPS (millions of shares)	288.3	251.9
Dilutive effect of share options	0.9	–
WANOS used in the calculation of diluted shares (millions of shares)	289.2	251.9
Profit/(loss) from discontinued operations attributable to ordinary equity holders of the Group	**182.2**	**(71.2)**
WANOS used in the calculation of basic EPS (millions of shares)	288.3	251.9
Dilutive effect of share options	0.9	–
WANOS used in the calculation of diluted shares (millions of shares)	289.2	251.9

Calculation of WANOS

Six months to 30 June 2021 (288,317,373)

- From 1 January 2021 to 25 May 2021 (201,821,575) the number of ordinary shares on issue of 251,929,000 multiplied by the ratio of days outstanding (145/181); plus
- From 25 May 2021 to 30 June 2021 (86,495,798) the number of ordinary shares on issue net of Treasury shares 434,881,654 multiplied by the ratio of days outstanding (36/181).

Six months to 30 June 2020 (251,929,000)

The number of ordinary shares on issue of 251,929,000 multiplied by the ratio of days outstanding (182/182).

Calculation of dilutive effect

Six months to 30 June 2021 (919,741)

Due to the nature of the share loans that were provided to Management (being secured on 4,624,254 shares issued to them as part of the IPO Management Offer), these shares were considered as Treasury shares. As a result, these are in substance share options that have been granted to Management and are exercisable upon repaying the outstanding loans balance – the number of Treasury shares on issue 4,624,254 multiplied by the ratio of days outstanding (36/181).

See Note 7A.b. for further details on the loans provided to Management.

c. Basic earnings per share

	Half-year ended	
	30 June 2021 Cents	**30 June 2020 Cents**
Basic EPS from continuing operations	19.44	15.79
Basic EPS from discontinued operations	63.21	(28.27)
Total basic EPS attributable to the ordinary equity holders of the Group	**82.65**	**(12.48)**

d. Diluted earnings per share

	Half-year ended	
	30 June 2021 Cents	**30 June 2020 Cents**
Diluted EPS from continuing operations	19.38	15.79
Diluted EPS from discontinued operations	63.01	(28.27)
Total diluted EPS attributable to the ordinary equity holders of the Group	**82.39**	**(12.48)**

E. Segment reporting

Operating segments are presented on a basis that is consistent with information provided internally to the Group's Board and Executive Committee (the chief operating decision makers).

The accounting policies of the reportable segments are the same as the Group's accounting policies. All assets and liabilities are allocated to reportable segments and no intersegment revenues occur. The Mortgages and Asset Finance segments include the relevant structured entities which hold the Group's mortgage and asset finance assets and liabilities. There is no equity in these structured entities and as a result segment assets equal segment liabilities.

The chief operating decision makers examine the Group's performance from a portfolio perspective and has identified the following operating and reportable segments:

- The **Mortgages** segment includes both residential mortgages and commercial real estate and includes the revenues and direct expenses associated with the origination of mortgages in Australia and New Zealand and with the origination of small balance commercial real estate in Australia. Mortgage lending comprises residential prime and non-conforming mortgages.
- The **Asset Finance** segment includes the revenues and direct expenses associated with the origination and ongoing ownership of loans secured over a range of assets, including new and used cars, caravans and small commercial equipment in Australia.
- The **Loan and Other Servicing** segment includes the revenues and direct expenses associated with the servicing of loan portfolios for third parties conducted by the Group in Australia. It also includes loan broker servicing (administration and compliance support) which commenced in Q4 2020.

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

a. Segment income statement

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies. Revenue from external customers attributable to foreign operations is immaterial to the Group.

The following is an analysis of the Group's revenue and results by reportable operating segments:

	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Total $M
Half Year ended 30 June 2021				
Interest income	250.7	88.4	(0.2)	338.9
Interest expense	(120.9)	(41.8)	–	(162.7)
Net interest income	**129.8**	**46.6**	**(0.2)**	**176.2**
Other operating income	(4.4)	16.7	2.8	15.1
Loan losses	(0.7)	(13.4)	–	(14.1)
Total segment reporting income	**124.7**	**49.9**	**2.6**	**177.2**
Corporate				
Corporate costs	–	–	–	(79.9)
Depreciation and amortisation	–	–	–	(10.7)
Corporate interest expense	–	–	–	(6.7)
Profit before income tax	–	–	–	79.9
Income tax expense	–	–	–	(23.9)
Net profit after tax before discontinued operations	**–**	**–**	**–**	**56.0**

	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Total $M
Half Year ended 30 June 2020				
Interest income	278.2	82.2	–	360.4
Interest expense	(144.2)	(43.3)	–	(187.5)
Net interest income	134.0	38.9	–	172.9
Other operating income	(4.3)	14.8	2.1	12.6
Loan losses	(15.0)	(28.1)	(0.1)	(43.2)
Total segment reporting income	114.7	25.6	2.0	142.3
Corporate				
Corporate costs	–	–	–	(65.5)
Depreciation and amortisation	–	–	–	(12.6)
Corporate interest expense	–	–	–	(6.5)
Profit before income tax	–	–	–	57.7
Income tax expense	–	–	–	(18.0)
Net profit after tax before discontinued operations	**–**	**–**	**–**	**39.7**

b. Segment balance sheet

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
As at 30 June 2021					
Segment assets	11,799.3	2,900.6	1.5	618.8	15,320.2
Segment liabilities	(11,799.3)	(2,900.6)	(1.5)	(61.2)	(14,762.6)
Current tax liability	–	–	–	(24.3)	(24.3)
Total	**–**	**–**	**–**	**533.3**	**533.3**
As at 31 December 2020					
Segment assets	11,172.6	2,661.9	1.4	495.3	14,331.2
Segment liabilities	(11,172.6)	(2,661.9)	(0.7)	(104.1)	(13,939.3)
Current tax liability	–	–	–	(37.8)	(37.8)
Total	**–**	**–**	**0.7**	**353.4**	**354.1**

The Corporate division represents the Group's support functions not specifically aligned to business operations in the other divisions listed above (specifically Finance, Treasury, Operations, Risk, Human Resources, Administration, Legal and Technology) as well as the Group's executives' costs. Operating foreign exchange gains or losses are also presented as part of the Corporate division.

3. Financial assets

A. Cash and cash equivalents

Cash and cash equivalents comprises cash at bank that can be directly attributed to the Group, cash in transit, and restricted cash held in the limited recourse financing vehicles. Restricted cash includes monies in the Special Purpose Vehicles ("SPVs") and securitisation trusts on behalf of members in those Trusts and various clearing accounts. These funds are not available for operational use.

	30 June 2021 $M	31 December 2020 $M
Cash at bank	60.3	95.8
Restricted cash	776.4	789.7
Total cash and cash equivalents	**836.7**	**885.5**

B. Gross loans and advances

	30 June 2021 $M	31 December 2020 $M
Gross loans and advances		
Loans and advances	14,352.1	13,333.5
Deferred transaction costs	170.0	154.2
Mortgage risk fee	(71.7)	(68.3)
Provision for loan impairment	(110.7)	(108.6)
	14,339.7	**13,310.8**
Provision for loan impairment		
Specific provision	(24.0)	(20.9)
Collective provision	(86.7)	(87.7)
	(110.7)	**(108.6)**
Specific provision		
Opening balance	(20.9)	(24.4)
Provided for during the year	(15.1)	(30.6)
Loans previously provided for written-off or sold	12.0	34.1
Specific provision closing balance	**(24.0)**	**(20.9)**
Collective provision		
Opening balance	(87.7)	(61.6)
(Provided for)/released during the year	1.0	(26.1)
Collective provision closing balance	**(86.7)**	**(87.7)**
COVID-19 Management overlay		
Mortgages	(16.0)	(16.0)
Asset Finance	(2.0)	(7.0)
Total	**(18.0)**	**(23.0)**

The above COVID-19 Management overlay balances are included in the collective provision total.

As at 30 June 2021, no loan assets were subject to COVID-19 hardship payment deferrals.

a. Economic exposure to credit risk in Loans and advances

The Group's exposure to loans and advances is limited, as they are legally owned by SPVs in the form of trusts, with limited recourse to the Group. The financial results of these SPVs have been consolidated with the results of the Group, as presented in this financial report.

Economically, losses on mortgage and asset finance loans are therefore limited to the Group's investments in notes in each trust and the cash collateral retained in each trust. The trusts' structures are designed such that losses are covered by excess spread generated from the assets within the trusts before the investment in notes are impacted.

There are no additional off-balance sheet arrangements with non-consolidated structured entities which would expose the Group to potential loss.

The nature and extent of the Group's interests can be summarised as follows:

	30 June 2021 $M	31 December 2020 $M
Investments in trust notes	264.0	236.9
Cash collateral	59.1	52.8
Total exposure	**323.1**	**289.7**

b. Staging analysis by loans and advances and provisions for impairment

The following tables show movements in:

- the gross carrying amount of financial assets subject to impairment requirements; and
- allowance for expected credit losses,

for the half-year ended 30 June 2021 and year-ended 31 December 2020.

Deferred transaction costs, mortgage risk fee and loans and advances equal the gross carrying amount of loans and advances.

Loans and advances ($M)	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount as at 1 January 2021	12,999.4	231.4	188.6	**13,419.4**
Transfer to Stage 1	204.3	(160.8)	(43.5)	**–**
Transfer to Stage 2	(142.3)	151.9	(9.6)	**–**
Transfer to Stage 3	(65.2)	(38.4)	103.6	**–**
Financial assets that have been derecognised during the period	(1,852.8)	(31.6)	(41.2)	**(1,925.6)**
New financial assets originated	3,320.4	5.3	0.8	**3,326.5**
Adjustments for repayments and interest	(366.5)	(1.5)	(1.9)	**(369.9)**
Gross carrying amount as at 30 June 2021	14,097.3	156.3	196.8	**14,450.4**

Provision for loan impairment ($M)	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance as at 1 January 2021	48.8	2.3	34.5	**85.6**
Transfer to Stage 1	5.4	(1.5)	(3.9)	**–**
Transfer to Stage 2	(0.5)	1.4	(0.9)	**–**
Transfer to Stage 3	(0.2)	(0.5)	0.7	**–**
Financial assets that have been derecognised during the period	(3.1)	(0.3)	(5.9)	**(9.3)**
New financial assets originated	16.1	0.5	0.3	**16.9**
Adjustments	(12.0)	–	11.5	**(0.5)**
Total	54.5	1.9	36.3	**92.7**
COVID-19 Management overlay	–	–	–	**18.0**
Loss allowance as at 30 June 2021	54.5	1.9	36.3	**110.7**

Loans and advances ($M)	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount as at 1 January 2020	12,921.1	148.3	173.6	**13,243.0**
Transfer to Stage 1	132.7	(97.4)	(35.3)	**–**
Transfer to Stage 2	(206.9)	211.8	(4.9)	**–**
Transfer to Stage 3	(91.0)	(25.3)	116.3	**–**
Financial assets that have been derecognised during the period	(3,118.6)	(41.9)	(75.7)	**(3,236.2)**
New financial assets originated	3,992.0	36.1	6.1	**4,034.2**
Adjustments for repayments and interest	(629.9)	(0.2)	8.5	**(621.6)**
Gross carrying amount as at 31 December 2020	12,999.4	231.4	188.6	**13,419.4**

Provision for loan impairment ($M)	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance as at 1 January 2020	50.6	2.6	32.8	**86.0**
Transfer to Stage 1	4.6	(1.5)	(3.1)	**–**
Transfer to Stage 2	(0.7)	1.2	(0.5)	**–**
Transfer to Stage 3	(0.3)	(0.3)	0.6	**–**
Financial assets that have been derecognised during the period	(5.9)	(0.7)	(11.2)	**(17.8)**
New financial assets originated	22.2	1.1	1.2	**24.5**
Adjustments	(21.7)	–	14.6	**(7.1)**
Total	48.8	2.4	34.4	**85.6**
COVID–19 Management overlay	–	–	–	**23.0**
Loss allowance as at 31 December 2020	48.8	2.4	34.4	**108.6**

The value of the collateral held as security for loans in Stage 2 and Stage 3 collective provision as at 30 June 2021 is $426.8 million (31 December 2020: $590.8 million).

The value of the collateral held as security for loans in Stage 3 specific provision as at 30 June 2021 is $5.8 million (31 December 2020: $7.8 million).

c. Maximum exposure to credit risk and the relative credit quality of financial assets

30 June 2021 ($M)		Maximum exposure to credit risk	Relative credit quality of assets: Rated*	Relative credit quality of assets: Unrated
Cash and cash equivalents		836.7	Investment grade	–
Derivative financial instruments		3.9	Investment grade	–
Gross Mortgages loans and advances (including undrawn facilities)		11,914.1	–	
	LVR Band 90%+			477.9
	LVR Band 75-90%			4,853.3
	LVR Band 60-75%			3,559.9
	LVR Band <60%			3,023.0
Gross Asset Finance loans and advances		2,990.1	–	
	Commercial			1,277.3
	Consumer			1,712.8
Receivables		19.2	–	19.2
Other financial assets		18.5	–	18.5
TOTAL		**15,782.5**	**–**	**14,941.9**

31 December 2020 ($M)		Maximum exposure to credit risk	Relative credit quality of assets: Rated*	Relative credit quality of assets: Unrated
Cash and cash equivalents		885.5	Investment grade	–
Derivative financial instruments		1.1	Investment grade	–
Gross Mortgages loans and advances (including undrawn facilities)		11,179.8	–	
	LVR Band 90%+			514.0
	LVR Band 75-90%			4,708.3
	LVR Band 60-75%			3,251.0
	LVR Band <60%			2,706.5
Gross Asset Finance loans and advances		2,653.0	–	
	Commercial			1,024.4
	Consumer			1,628.6
Receivables		5.4	–	5.4
Other financial assets		19.6	–	19.6
TOTAL		**14,744.4**	**–**	**13,857.8**

*Investment grade: AAA to BBB by Standard & Poor's.

As at 30 June 2021 the Group had $1,110.0 million of undrawn customer facilities (31 December 2020: $982.0 million).

Undrawn customer commitments and redraw balances are not recognised on the balance sheet and are classified at amortised cost and subsequently assessed for credit risk as required under AASB 9. The ECL has been assessed as immaterial and no provision has been recognised.

Mortgage loans are secured by a first registered mortgage over the property. This provides the Group with first priority over the proceeds of any sale of the property to repay the outstanding balance of the loans.

Asset Finance loans are secured by a Purchase Money Security Interest (PMSI) registered with the personal property security register over the financed asset. This provides the Group with first priority over the proceeds of any sale of the asset to repay the outstanding balance of the loans.

Generally collateralised assets are not revalued unless repossessed.

C. Other financial assets

Other financial assets comprised a number of equity and debt portfolio investments held at fair value through profit or loss ("FVTPL") or amortised cost.

Investments held at amortised cost have been assessed for credit risk as required under AASB 9. The ECL has been assessed as immaterial and no provision has been recognised.

	30 June 2021 $M	31 December 2020 $M
Equity investments held at FVTPL	15.3	15.3
Debt investments held at FVTPL	2.3	2.3
Debt investments held at amortised cost	0.9	2.0
Total other financial assets	**18.5**	**19.6**

4. Financial liabilities

A. Borrowings

	30 June 2021 $M	31 December 2020 $M
Non-recourse facilities	14,607.0	13,606.3
Corporate debt facility	48.3	190.7
Total borrowings	**14,655.3**	**13,797.0**

Non-recourse facilities are secured on the assets of each of the individual trusts.

Corporate debt facilities secured over certain assets of the Group were also in place in the year ended 31 December 2020 and the period to 30 June 2021.

During the period, the Group entered into a secured syndicated facility agreement to provide an IPO bridge term loan facility. Upon listing on 25 May 2021, this converted into a secured, syndicated 3-year revolving credit facility and was partially paid down with funds raised in the IPO. As at 30 June 2021, $50.0 million is drawn down on the total facility of $200.0 million (31 December 2020: $nil).

This facility carries a floating interest rate at 3-month BBSY plus a margin. Transaction costs directly attributable to the facility have been capitalised and are amortised over the facility term. Commitment fees on the undrawn portion are included in the effective interest rate.

5. Financial instrument disclosures

A. Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, 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 the Group for financial reporting purposes:

	Fair value hierarchy	Valuation technique and key inputs	30 June 2021 $M	31 December 2020 $M
Equity investments at FVTPL	Level 2	Recent arm's length market transaction	15.3	15.3
Debt investments at FVTPL	Level 2	Discounted cash flow, forward interest rates, contract interest rates, appropriate discount rates	2.3	2.3
Derivative financial assets and liabilities	Level 2	Discounted cash flow, forward interest rates, contract interest rates, counterparty valuations	(39.8)	(85.6)
Total			**(22.2)**	**(68.0)**

In the period to 30 June 2021 there has been no change in the fair value hierarchy or the valuation techniques applied to any of the balances above.

Fair value of assets and liabilities not measured at fair value

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

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

	Carrying value $M	Fair value $M	Difference $M
As at 30 June 2021			
Loans and advances	14,339.7	14,355.6	15.9
As at 31 December 2020			
Loans and advances	13,310.8	13,346.3	35.5

6. Equity

A. Issued capital

All ordinary shares are fully paid. Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Group, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either by person or by proxy, at a meeting of the Group.

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

a. Movements in ordinary shares:

	Number of shares (millions)	$M
Opening balance 1 January 2021	251.9	601.8
Capital reduction	–	(395.5)
Ordinary shares issued under the IPO	173.0	500.1
Ordinary shares issued to employees as part of Employee Gift Offer share scheme	0.2	–
Treasury shares netted off within issued capital	–	(5.6)
IPO fees converted to equity	–	(13.1)
Shareholder loan converted to equity	14.4	41.6
Balance 30 June 2021	**439.5**	**729.3**

During the period, the Group issued additional ordinary shares as part of an IPO which raised $500.1 million in gross proceeds.

Costs of $19.7 million incurred by the IPO were directly attributable to the capital raising.

B. Other equity and other reserves

	30 June 2021 $M	31 December 2020 $M
Other equity	–	(0.8)
Common control reserve	–	(18.7)
Total other equity	**–**	**(19.5)**
Currency translation reserve	(0.1)	(1.9)
Cash flow hedge reserve	(16.0)	(43.7)
Share-based payments	0.5	-
Total other reserves	**(15.6)**	**(45.6)**

7. Related party transactions

A. Related party disclosures

The ultimate parent entity of Pepper Money Limited is Topco, an entity incorporated in Jersey. Topco owns 100% of the shares in Pepper Global Midco Limited ("Midco") which in turn owns 100% of the shares in Pepper Group ANZ Holdco Limited ("ANZ Holdco"). ANZ Holdco owns 60.59% of the shares of Pepper Money Limited (and its controlled entities).

The Group undertook a Restructure prior to listing on the ASX. Details of the impact of the Restructure are detailed in Note 8.

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

The following tables detail the total amount of transactions that have been entered into with related parties during the half-year ended 30 June 2021 and 2020, as well as balances with related parties as at 30 June 2021 and 31 December 2020.

a. Transactions and balances with related party entities

$'000	Dividend income/(paid)	Interest income & other fees	Interest expense & other fees	Receivable	Payable
Entity with significant influence over the Group:					
Pepper Group ANZ Holdco Limited – 2021	**–**	**–**	**(2,977)**	**–**	**–**
Pepper Group ANZ Holdco Limited – 2020	–	–	–	–	–
Pepper Group Services Australia Pty Ltd – 2021	**–**	**–**	**(1,247)**	**5,840**	**–**
Pepper Group Services Australia Pty Ltd – 2020	–	–	–	–	–
Red Hot Australia Holdco Pty Ltd – 2021	**–**	**–**	**–**	**2,755**	**–**
Red Hot Australia Holdco Pty Ltd – 2020	–	–	–	19,028	–
Red Hot Australia Bidco Pty Ltd – 2021	**–**	**–**	**(4,538)**	**–**	**–**
Red Hot Australia Bidco Pty Ltd – 2020	–	–	(14,505)	11,616	(366,524)
Other related parties of Pepper Money Limited – 2021	**470**	**602**	**(4,110)**	**–**	**(783)**
Other related parties of Pepper Money Limited – 2020	394	2,103	(596)	–	–
Associate:					
PrimeCredit Holdings Ltd – 2021	**–**	**–**	**–**	**–**	**–**
PrimeCredit Holdings Ltd – 2020	5,758	–	–	–	–

b. Loans to/from related parties

During the period, interest-free loans were provided to certain management. The loans were made as part of an offer for those management to reinvest proceeds from the sale of their shares in TopCo to purchase shares in the Group at the time of listing on the ASX. The loan amounts were calculated to equal amounts retained from the proceeds of the sale of the TopCo shares to: (a) repay existing loans to management; and (b) estimate tax liabilities for those management as a result of the sale of the TopCo shares. There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

	30 June 2021 $'000	31 December 2020 $'000
Loans to key management personnel of the Group		
Loan balances	5,593	–
Interest received	–	–

8. Discontinued operations

A. Background[4]

PrimeCredit Holdings Ltd ("PrimeCredit")

On 17 March 2021, Pepper Europe UK Ltd entered into a Sale and Purchase agreement to sell its shares in PrimeCredit. The transaction closed on 25 March 2021.

Rest of World Business Operations (excluding PrimeCredit)

As at 31 March 2021, as part of a restructure prior to the listing of Pepper Money Limited on the ASX, the global business operations in all jurisdictions – other than Australia, New Zealand and the shared service operations in the Philippines – collectively the Rest of World – were sold by subsidiaries controlled by Pepper Group Pty Limited (within the Group) to other legal entities controlled by Topco.

For the purpose of the distribution of non-cash items, the Rest of World business operations were sold at a fair value determined by an independent valuation and this resulted in an overall gain of $192.1 million. The gain was recognised in the condensed consolidated statement of profit or loss. This was facilitated through dividend distributions of $22.1 million to its current immediate holding company (ANZ Holdco) and $597.9 million to its previous immediate parent entity Red Hot Australia Bidco Pty Ltd (Bidco). The Group also repatriated $14.1 million of capital to ANZ Holdco and $381.4 million to Bidco before all Pepper Money Limited shares were sold to ANZ Holdco prior to listing on the ASX.

All Rest of World business results (including PrimeCredit) represent discontinued operations and are presented in more detail in the tables below.

B. Financial performance

Summary income statement information for the Group's most significant Rest of World business units have been individually presented in the table below.

The financial performance information presented is for the period and prior comparative period.

30 June 2021	Prime Credit $M	Europe Servicing $M	South Korea $M	UK Lending $M	Spain Lending $M	Group Corporate $M	Total $M
Total revenue	**–**	**29.0**	**93.6**	**15.2**	**16.3**	**0.2**	**154.3**
Gain on sale of businesses	**–**	**–**	**–**	**–**	**–**	**192.1**	**192.1**
Total expenses	**–**	**(30.6)**	**(86.9)**	**(23.9)**	**(16.6)**	**(11.5)**	**(169.5)**
Equity profits from associates	2.4	–	0.3	–	–	-	2.7
Profit/(loss) before tax	**2.4**	**(1.6)**	**7.0**	**(8.7)**	**(0.3)**	**180.8**	**179.6**
Income tax expense	–	0.7	(2.7)	1.7	0.1	2.8	2.6
Profit/(loss) after tax	**2.4**	**(0.9)**	**4.3**	**(7.0)**	**(0.2)**	**183.6**	**182.2**

4. The Restructure occurred on 31 March 2021 when the most significant foreign exchange rates were: GBP:AUD: 0.554:1, EUR:AUD: 0.648:1 and KRW:AUD: 858:1.

30 June 2020	Prime Credit $M	Europe Servicing $M	South Korea $M	UK Lending $M	Spain Lending $M	Group Corporate $M	Total $M
Total revenue	**–**	**72.1**	**158.0**	**49.3**	**39.9**	**–**	**319.3**
Total expenses	**–**	**(64.9)**	**(185.9)**	**(53.3)**	**(34.1)**	**(30.3)**	**(368.5)**
Equity (losses)/ profits from associates	(26.9)	–	0.6	–	–	–	(26.3)
Profit/(loss) before tax	**(26.9)**	**7.2**	**(27.3)**	**(4.0)**	**5.8**	**(30.3)**	**(75.5)**
Income tax expense	–	(1.5)	(1.4)	0.4	(1.5)	8.3	4.3
Profit/(loss) before tax	**(26.9)**	**5.7**	**(28.7)**	**(3.6)**	**4.3**	**(22.0)**	**(71.2)**

C. Assets and liabilities of disposal group classified as held for sale or distribution

No assets and liabilities were classified as held for sale or distribution in relation to the discontinued operations at 30 June 2021.

9. Events occurring after the reporting period

Impact of COVID-19

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In accordance with AASB 110 *Events after the Reporting Period*, the Group considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lock downs implemented across Australian States, the closure of State borders and the extension of further fiscal stimulus packages.

The Group did not identify any subsequent events caused by COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. In addition, no other material non-adjusting subsequent events were identified requiring disclosure in the financial statements. The Group continues to monitor and review forward-looking assumptions and economic scenarios.

Other than as noted above, there has not been any matter or circumstance occurring subsequent to the end of the period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future periods.

Corporate directory

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John Williams

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Share register

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Auditor

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Other information

Pepper Money Limited, incorporated and domiciled in Australia, is a public company.

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