APPENDIX 4E

Company details

Name of entity:	Pepper Money Limited
ACN:	094 317 665
ABN:	55 094 317 665
Reporting period:	For the year ended 31 December 2022 (the 'year')
Prior comparative period:	For the year ended 31 December 2021

Results for announcement to the market

All comparisons to year ended 31 December 2021:

				$M
Net interest income from continuing operations	Up	6.1%	to	388.9
Total operating income from continuing operations	Up	8.6%	to	408.2
Net profit after income tax from continuing operations	Up	7.5%	to	140.5

Dividends

The Directors have approved a final dividend in respect of the financial year ended 31 December 2022 of 5.1 cents per ordinary share which will be paid on 14 April 2023 to shareholders on the share register as at 14 March 2023.

An interim dividend was paid on 14 October 2022 in respect of the six months to 30 June 2022.

	Amount per security	Franked amount per security
Final CY2022 dividend declared	5.1 cents	5.1 cents
Interim CY2022 dividend paid	5.4 cents	5.4 cents
Previous corresponding period:		
Final CY2021 dividend paid (14 April 2022)	9.0 cents	9.0 cents
Interim CY2021 dividend paid	Nil	Nil

Net tangible assets per ordinary share

Net tangible assets per ordinary share is calculated using tangible assets and the number of shares on issue at the reporting date.

	31 December 2022 $	31 December 2021 $
Net tangible assets per ordinary share	**1.56**	1.29

Explanation of results

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

This information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2022 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 60.57% owned by Pepper Group ANZ Holdco Limited ("Holdco"). Holdco is an independently wholly-owned subsidiary of Pepper Global Topco Limited ("Topco"). As part of the Restructure, all Pepper Global business operations in all jurisdictions – other than Australia, New Zealand and the shared service operations in the Philippines were sold to other subsidiaries of Topco.

Additional information supporting the Appendix 4E 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 net profit after tax ('NPAT') has been adjusted to separate one-off items incurred in the period as a result of the acquisition of Stratton Finance Pty Limited ('Stratton'), completed on 1 July 2022, and the Initial Public Offering ('IPO'), completed on 25 May 2021 (prior comparable period). Management believes 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 year.

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Statutory NPAT	**140.5**	130.7
Stratton acquisition costs	**1.5**	–
Employee remuneration plans	**–**	(0.2)
Public company costs	**–**	(0.2)
Corporate debt costs	**–**	7.9
Offer costs	**–**	8.6
Tax impact of adjustments	**–**	(4.9)
Pro-forma NPAT	**142.0**	141.9

Details of entities over which control has been gained or lost during the year

Refer to Note 11(A)(a) for further details.

Details of associate investments and joint venture entities

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

Foreign entities

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

Results commentary

Commentary on the results for the year is contained in the ASX release accompanying this statement and the Operating and Financial Review contained within the Annual Report.

Audit

This report is based on the financial report audited by Deloitte Touche Tohmatsu.

Michael Culhane
Chair

23 February 2023

Annual Report **2022**

CY2022

Highlights

Contents

Volume

Total Originations

$9.6bn

14% PCP[1]

Total AUM

$19.2bn

13% PCP

Customers

New to Pepper[5]

77,214

29% PCP

Pepper Money is one of Australia and New Zealand's largest non-bank lenders. Our mission is to help people succeed.

Profitability

Pro-forma NPAT[2]

$142.0m

0.1% PCP

Statutory NPAT[3]

$140.5m

8% PCP

Funding

Public Securitisations

$5.0bn

6% PCP

Warehouse capacity

$11.3bn

14% PCP

Shareholders

Fully franked final dividend

5.1

cents per share

CY2022 fully franked dividends

10.5

cents per share

Annualised Yield[4]

6.3%

5.1% CY2021

Our People

Engagement[6]

78

Top 10% companies globally

Our Community

Pepper "Shout Out"

300 nominations

58 awards

Pepper Giving

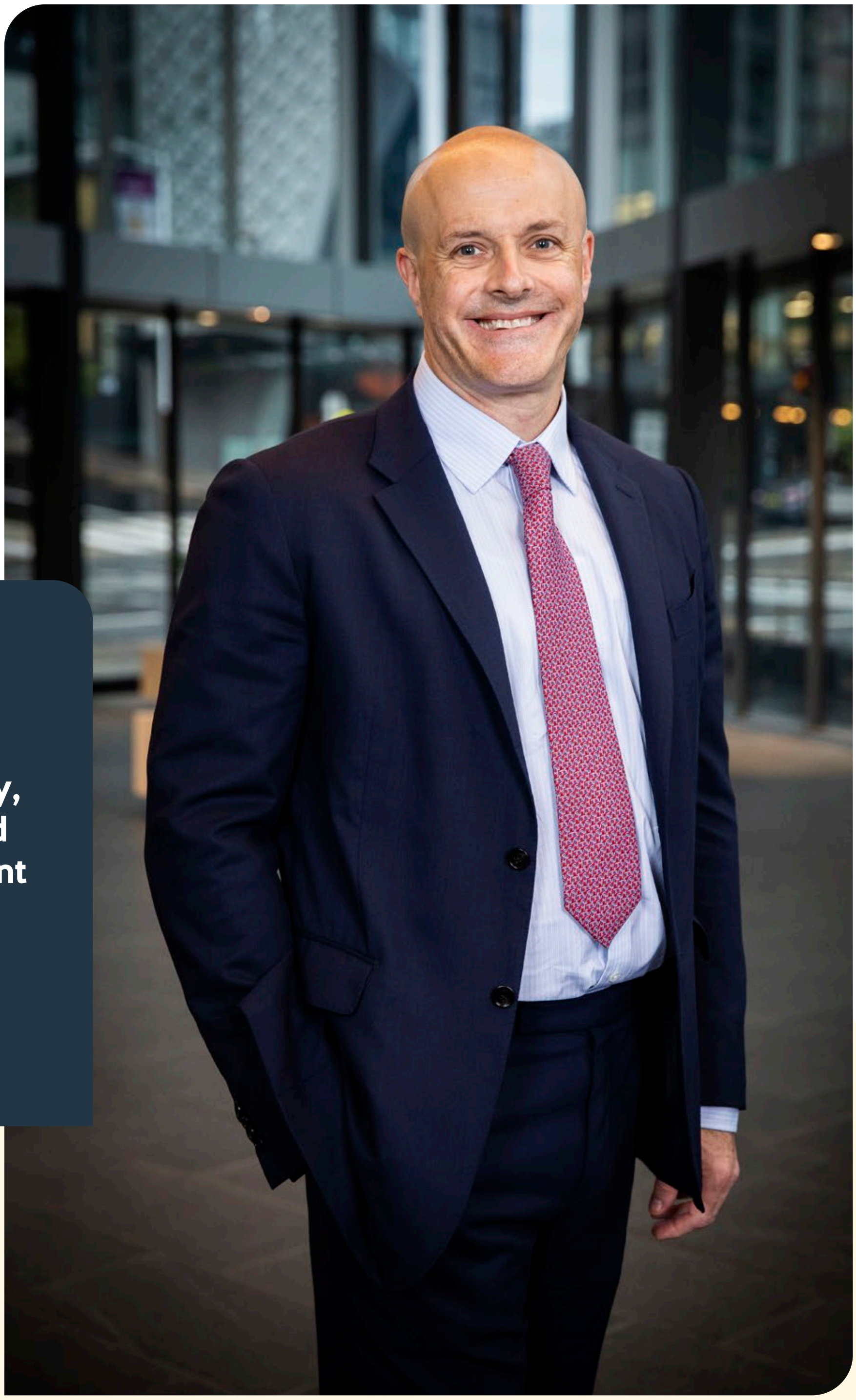
>$200k

to support charities and communities

1. Unless otherwise stated, all % movements are compared to year ending 31 December 2021 (CY2021). **2.** Pro-forma pre-tax adjustments for CY2022 of $(1.5) million are one-off in nature as they relate to the acquisition of Stratton Finance Pty Ltd completed 1 July 2022. CY2021 total $(16.1) million, Pro-forma pre-tax adjustments relate to the IPO. Pro-forma NPAT from continuing operations. **3.** Statutory NPAT from continuing operations. **4.** Annualised dividend yield based on average 1 January 2022 – 31 December 2022. **5.** Number of customers from 1 January 2022 to 31 December 2022. Includes net Stratton customer numbers for the 6 months to 31 December 2022. **6.** Pepper Money Limited CY2022 Employee Engagement Survey conducted by Custom Insights, 5 September – 16 September 2022. Results for Australia and New Zealand. Pepper Money Manila Employee engagement under the same survey saw response rate in excess of 90 and a score of 81.

Chair's Letter

> "CY2022 has been a year of unique challenges – Pepper Money's agility, core competencies and disciplined management have again seen the business navigate the cycle to deliver positive results."



Michael Culhane
Chair
Pepper Money Limited

Dear Shareholder,

Without doubt, CY2022 has been a year that has seen the business face many challenges. Our economies emerged from the COVID-19 pandemic only to face inflationary pressures, tight labour markets, capital market volatility and a rising interest rate environment, which saw the Reserve Bank of Australia (RBA) increase cash rates by 300bps from May to December, and a further 25bps in February 2023. I am exceptionally proud of how Pepper Money continues to navigate the market complexities and volatility to deliver on our mission to **'help people succeed'**.

Our performance

The underlying performance of the Company remained strong throughout the year. Pepper Money delivered Pro-forma[1] Net profit after tax (NPAT) of $142.0 million – up from the $141.9 million delivered in CY2021. Statutory NPAT increased 8% year on year to $140.5 million.

Capital and funding

The discipline of the business saw us continue to maintain a strong capital position, retaining an appropriate buffer given heightened market risks. This approach also permits us to capitalise on emerging opportunities if and when they arise.

Pepper Money's strong track record in accessing debt capital markets is supported by the long-standing relationships we have developed over nearly two decades across a diversified investor base. In CY2022 we raised over $5.0 billion from our four Public Term Securitisation programs[2] and completed the issuance of our first Social Bond and second Green Bond. The market recognised our efforts by awarding us the prestigious KangaNews Australian Nonbank Financial Institution Issuer of the Year 2022[3], and we enter CY2023 well positioned with $11.3 billion in warehouse capacity.

Creating value for our customers and partners

Our customers and partners are at the centre of what we do. We continue to simplify how brokers, introducers and customers interact with Pepper Money. During CY2022, we further enhanced our digital connect program with the aim of providing partners and customers the information they need through self-serve options, driven by automated technology. For our retail customers, this was supported through the launch of mypeppermoney.com.au. Our purpose-built technology platform for the Asset Finance business, Solana, continues to drive scale benefits. Our Sage platform for Mortgages is now live and fully operational. These platforms support customers through their loan journey, efficiently integrate with our partners' customer management systems and drive our operational scale and efficiency.

Pepper Money continues to see its customer satisfaction scores well above the industry average. Our customers rated their overall satisfaction with our Mortgage solutions at 62% compared to industry average of 58% and our Asset Finance customers rated overall satisfaction at 82% versus the total market of 67%[4]. These scores are built on our principles of trust and advocacy. Over CY2022 we continue to increase customer numbers and closed the year with 366,114 customers who have benefitted from a Pepper Money solution[5].

Reporting framework and sustainability

Pepper Money's disclosure framework for our annual reporting is comprised of a suite of documents, covering Corporate Governance, Sustainability and Remuneration.

Our inaugural Sustainability Report lays out how we will manage, measure and report a consolidated view of our financial, economic, social and environmental performance. This report is central to our strategy and our ability to create and sustain value into the future.

Sustainability has been an inherent part of Pepper Money's mission since inception. Our focus on helping people succeed sees us continuing to challenge the way loans are designed and distributed, focusing on the underserved and undervalued segments of the market – those customers that traditional banks do not cater to. Our commitment to helping customers succeed saw Pepper Money issue its first Social Bond in CY2022 – reinforcing one of the fundamental principles of our business, which is to drive financial inclusion through innovation and to seek to lead the industry in making a positive contribution to society.

We continue to demonstrate our commitment to the environment through our leading position in electric vehicle financing. This was recognised by Canstar awarding us the inaugural Green Excellence Award for our Electric Vehicle Loan program. To better support our customers to make the transition to electric vehicles, we partnered with Evie Networks to make electric vehicles

1. Pro-forma pre-tax adjustments for CY2022 of $(1.5) million are one-off in nature as they relate to the acquisition of Stratton Finance Pty Ltd completed 1 July 2022. CY2021 total $(16.1) million, Pro-forma pre-tax adjustments relate to the IPO. Pro-forma NPAT from continuing operations.
2. Pepper Money four Public Term Securitisation programs are RMBS: Pepper-Prime, PRS, and Social Bonds. ABS: Sparkz.
3. KangaNews Awards 2022. Based purely on the votes of market participants.
4. Independent customer survey conducted by RFI Global – 1 September to 6 September 2022.
5. Cumulative customers from 2004 to 31 December 2022, Includes net Stratton customer numbers from date of acquisition, 1 July 2022, to 31 December 2022.

more affordable by providing them with complementary access to Evie's public fast charging network for up to 12 months (or 2,000 kWh).

Pepper Money has always recognised that strong communities help build better outcomes for more people. Our focus on our communities continued over CY2022 through the Pepper 'Shout Out' Awards, which recognised and helped further the efforts of people making a real-life difference to others across Australia. Over 300 nominations were received and 58 awards given out in CY2022 to people nominated by others in their community. Award recipients included Dubbo-based Rhonda Towney, a proud First Nations Wiradjuri woman who helped source spare fresh food from large corporations, which was then delivered to people in need in rural areas. Pepper Money made her work a little easier by gifting her a new hybrid car and petrol vouchers.

The 'Shout Out' campaign has also provided special equipment for a gym for people with disabilities, supported wildlife sanctuaries, and helped with the distribution of food and supplies into communities, volunteers, caregivers and community angels. We also gave the key people doing this incredible work personal recognition through gifting them a 'special something' they needed, to make their life easier.

People, diversity and inclusion

People are at the heart of our business. Our foundational mission is to 'help people succeed', and it is through our people that we continue to deliver on this mission. Diversity and inclusion (D&I) have always been part of Pepper Money's DNA and I am proud of how our D&I strategy is supported by our guiding principles of Allyship, Celebrate, & Educate (ACE). Our inclusiveness and diversity show through in our employee profile. As at 31 December 2022 our team was 55% female, 45% male, with 41% of our Senior Managers being female – compared to 38% for the Financial Services and Insurance[6] sector in Australia. I am particularly proud by how engaged our employees remain – with over 90% of our people participating in our annual Employee Engagement Survey[7] – and the Company received a score of 78 placing us in the top 10% of companies globally. The strength of our values shines through the survey with Personal Expression – *People with different ideas are valued at Pepper* – rating 87 and Trust – *There is an atmosphere of trust at Pepper* – 93.

6. Workplace Gender Equality Agency (WGEA) - www.wgea.gov.au/data-statistics. "Australia's Gender Equality Scorecard 2021-2022 - Key results from the Workplace Gender Equality Agency's Employer Census 2021-22.
7. Pepper Money Limited CY2022 Employee Engagement Survey conducted by Custom Insights, 5 September – 16 September 2022. Results for Australia and New Zealand. Pepper Money Manila Employee engagement under the same survey saw response rate in excess of 90 and a score of 81.

Return to our shareholders – dividend

The year's performance and the strong management of the Company's capital position allows Pepper Money to deliver ongoing returns to shareholders. As such, the Board has determined to pay a fully franked final dividend for CY2022 of 5.1 cents per share, with the payout ratio of 32.50%. This sees Pepper Money deliver total dividends of 10.5 cents per share in CY2022 to shareholders a dividend yield of 6.3% annualised[8].

Responding to the challenges ahead

The start to CY2023 has again brought market challenges. Pepper Money continues to demonstrate its resilience and agility through the ability of the business to adapt and grow through all parts of the cycle. As we look to CY2023, I believe Pepper Money has never been better placed to help more customers to succeed and to continue to capitalise on the scale benefits that our investment in data and technology bring to our platform. Our continuous investment in this area sets us up for future innovation and growth potential that we believe will keep us at the forefront of our industry.

Thank you to the team

I wish to thank the incredible team at Pepper Money. We continue to attract and retain amazing talent to the business, through our mission and values.

On behalf of the Board, I extend our thanks to our business and community partners who continue to help make Pepper Money the business it is today, and to our shareholders who support us through their investment in the Company. I look forward to further strengthening these key relationships.

Michael Culhane
Chair, Pepper Money Limited

8. Annualised dividend yield based on average 1 January 2022 – 31 December 2022.

Board of Directors

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

From left to right: Michael Culhane, Mario Rehayem, Rob Verlander, Justine Turnbull, Mike Cutter, Des O'Shea, Akiko Jackson.

Chair

Michael Culhane

Chair and Shareholder Representative
(appointed 20 January 2011)

Michael is currently the CEO of the Pepper Global Group and is responsible for the global financial performance and strategy of businesses in the 14 jurisdictions in which Pepper Global 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 Global 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).

Directors

Mario Rehayem

Chief Executive Officer, Pepper Money
(appointed 2 May 2018)

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 in 2017 and is responsible for the strategy and oversight of Pepper Money's businesses across Australia and New Zealand. With over 20 years of extensive experience across banking and finance, Mario has held senior positions in ADI's as well as the non-bank sector. Mario's previous roles include State Manager, Mortgage Broker Distribution – Western Australia and South Australia for Westpac. Mario is a known champion of mortgage broker education and growing the specialist lending category. In 2019, 2021 and 2022, Mario was included in the MPA Mortgage Global 100 List featuring leaders who are making a difference in today's mortgage industry. In 2022 Mario joined the board of the Australian Finance Industry Association (AFIA).

Des O'Shea

Non-Executive Director and Shareholder Representative (appointed 6 May 2021)

Des has more than 40 years' global experience in Banking and Consumer Finance. He was appointed to the Pepper Global Group board in March 2014 and he Chairs the Group board Audit and Risk Committee. Des is currently Chairman of Oodle Finance – a U.K. based auto finance business – and is the Chair of Byblos Bank Europe and on the board of Byblos Bank in Lebanon (where he is Chair of the 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 and South Central America.

Mike Cutter

Independent Non-Executive Director (appointed 6 May 2021)

Mike has over 35 years' experience in the financial services industry, both in Australia and abroad. Mike has extensive knowledge of comprehensive credit reporting regimes in Australia and international markets, and was one of the original champions of comprehensive credit reporting in Australia. Mike is currently a Non-Executive Director of Sezzle, an ASX listed Buy Now Pay Later company, is the Chair of the Arteva Funding and a Non-Executive Director of Panthera Finance. Prior to joining the Pepper Money board, Mike held various executive positions including Group Managing Director of Equifax ANZ, Chief Risk Officer ANZ Bank (Australia Division), CEO at GE Money Australia & New Zealand, and CEO of OAMPS Insurance Brokers. Mike has held various directorships and chairships with Wesfarmers, GE, AFC 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.

Akiko Jackson

Independent Non-Executive Director (appointed 6 May 2021)

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 Bank and Westpac in Australia and MUFG and Shinsei Bank in Japan, and as a strategy management consultant in the US and Australia. Akiko has worked in both the private and the public sectors, in large corporations and start-ups and has extensive experience in strategy & business development, risk management and large-scale transformation, including digital transformation. Akiko is a Non-Executive Director of the Australian Children's Education and Care Quality Authority ('ACECQA') and the Foundation and Friends (F&F) of the Botanic Gardens, and a member of the Audit & Risk Committee of Infrastructure NSW and the Audit & Risk Committee of Transport for NSW. She also Chairs the Finance, Audit & Risk Committee of the F&F and is a member of the Audit & Risk Committee of ACECQA. 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, the Portfolio Advisory Council of Services Australia 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 (appointed 6 May 2021)

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 to 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 Non-Executive Director of the Cancer Patients Assistance Society of NSW (Can Assist), and is a former board member for Catholic Schools NSW/ACT, Access EAP and TAFE NSW.

Rob Verlander

Independent Non-Executive Director (appointed 6 May 2021)

For over 35 years Rob held senior positions at investment and commercial banks, in Australia and the United Kingdom, in the areas of Fixed Income, Capital Markets, Infrastructure and Securitisation. Rob's roles have included 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).

CEO's Letter

"We continue to execute on our strategy. We entered CY2022 with a strong focus on driving volume to support AUM growth, expecting that the emerging economic trends and interest rate increases, would see the market slow over the latter part of the year. This saw the business close CY2022 delivering record originations."

Mario Rehayem
Chief Executive Officer
Pepper Money Limited

Dear Shareholders,

Pepper Money rose to the challenges that volatile markets presented over the year, finishing CY2022 with record Originations of $9.6 billion, growth of 14% on PCP. During CY2022 we also successfully launched new products – such as our Near Prime Clear in Mortgages; extended our market share of the Asset Finance sector – growing 35 times system[1]; completed the acquisition of Stratton Finance Pty Ltd and maintained our employee engagement in the top 10% of companies globally. Despite the challenging market conditions, we delivered Pro-forma NPAT of $142.0 million in line with our record delivery in CY2021 (CY2021: $141.9 million).

This performance yet again showed Pepper Money's ability to manage through cycles given our business diversity, quality of assets, operational scale and efficiency underpinned by our core competencies of credit, funding, distribution, and digitally enabled data.

Market conditions and approach to growth

CY2022 was truly a challenging year – as the business navigated headwinds across a number of fronts: from geo-political uncertainty to inflationary pressures, tight labour markets, to highly volatile debt capital markets as well as the rising interest rate environment – which Australia and New Zealand had not experienced in well over a decade.

We entered CY2022 with a strong focus on driving volume to support AUM growth, expecting that the emerging economic trends and interest rate increases, would see the market slow down over the latter part of the year. In the first half, we delivered above systems growth with Lending AUM at 30 June 2022 of $18.3 billion: Mortgage AUM increasing by 24% on the first half of CY2021 to $14.0 billion and Asset Finance AUM increasing by 43% over the same period to a record $4.3 billion. Originations closed the first half of CY2022 at $5.6 billion in total – a growth of 53% on the first six months of 2021.

The second half of the year saw significant softening in the markets in which we operate – particularly Mortgages – as eight consecutive interest rate increases by the RBA from May to December 2022 lifted the official cash rate in Australia from 0.10% to 3.10%.

The impact of these rapid rate rises, coupled with ongoing inflationary pressures and a notable deterioration in consumer sentiment, all contributed to a marked slow-down in the property market and a cooling in property prices. By year end, the Australian residential property market, excluding refinancing, had declined (6)% on prior year, with December 2022 down (29)% on December 2021[2] and Corelogic[3] reported that overall, house prices had fallen (5)% across Australia year on year. As the housing market softened, we saw competition for share of market amongst the major banks intensify – with discounting of prime lending rates and substantial cash back offers. At the same time, capital markets were experiencing volatile conditions, which impacted funding margins for non-deposit lenders.

As we entered the second half of CY2022, given the breadth of our product offerings, and the depth of our capability in pricing for risk, we shifted our business focus away from low yielding prime residential mortgages to our higher yielding Non-conforming Mortgages, Commercial Real Estate and our Asset Finance portfolio. This resulted in the mix of our Mortgage Originations shifting in the second half of CY2022 to 47% Prime and 53% Non-conforming compared to 58% Prime and 42% Non-conforming in the second half CY2021. While Originations were down in the second half, most notably in our Mortgage business, we added an additional $4.0 billion to our first half results (Mortgages: $2.7 billion, Asset Finance: $1.3 billion) to close the full year with our highest reported Originations of $9.6 billion, a growth of 14% on CY2021. Mortgages closed CY2022 with Originations of $6.8 billion, up 7% on PCP, and Asset Finance grew Originations by an impressive 35% to $2.8 billion. Lending AUM closed the year strong at $18.2 billion, up 15% on PCP and Total AUM at $19.2 billion grew 13% on CY2021.

When strong foundations count

Pepper Money is now entering its 23rd year of business, and year on year we have been able to deliver disciplined growth – whether it be volume, customer, distribution footprint, or profitability. Our core competencies provide the foundations to allow us to navigate market cycles and the challenges which they bring.

A key call out for the business over CY2022 was the continued strength of our funding and how the market views Pepper Money. In difficult and volatile markets, the depth and breadth of our investor base, and the

1. New household loan commitments for purchase of road vehicles, other transport vehicles and equipment, New household loan commitments, ABS 5601.0 Lending Indicators Table 27, January 2022 – December 2022 (published February 2023). Assumes market size is approximately 4x lending commitments for last 12 months, plus New business loan commitments, finance lease and fixed term, purchase of vehicles, plant and equipment, ABS 5601.0 Table 29, 31 and 33, January 2022 – December 2022 (published February 2023). Assumes market size is approximately 4x lending commitments for last 12 months. Negative growth is assumed zero for growth comparison.
2. Australian Bureau of Statistics (ABS), New loan commitments, total housing (seasonally adjusted and trend), values, Australia, 12 months to December 2022 (versus 12 months to December 2021). Report date: 3 February 2023 and December 2022 vs December 2021.
3. Corelogic: "Hedonic Home Value Index" dated 3 January 2023. National Media Release.

strength of these relationships was a real point of differentiation. In CY2022, we increased our warehouse capacity to $11.3 billion, up 14% on December 2021. We successfully executed 7 Public Term Securitisations – raising over $5.0 billion, and, in total, we secured $18.2 billion across all our funding programs over the year. Further, our funding supports our sustainability objectives – including our core pillar of financial inclusion – and in CY2022 we executed our second Green Bond at $330 million and our first Social Bond for $300 million. But the true testament to the fundamental strength of our funding saw us welcoming four new investors over the year – at a time when capital market conditions were highly volatile, and investors were looking for strong, secure opportunities.

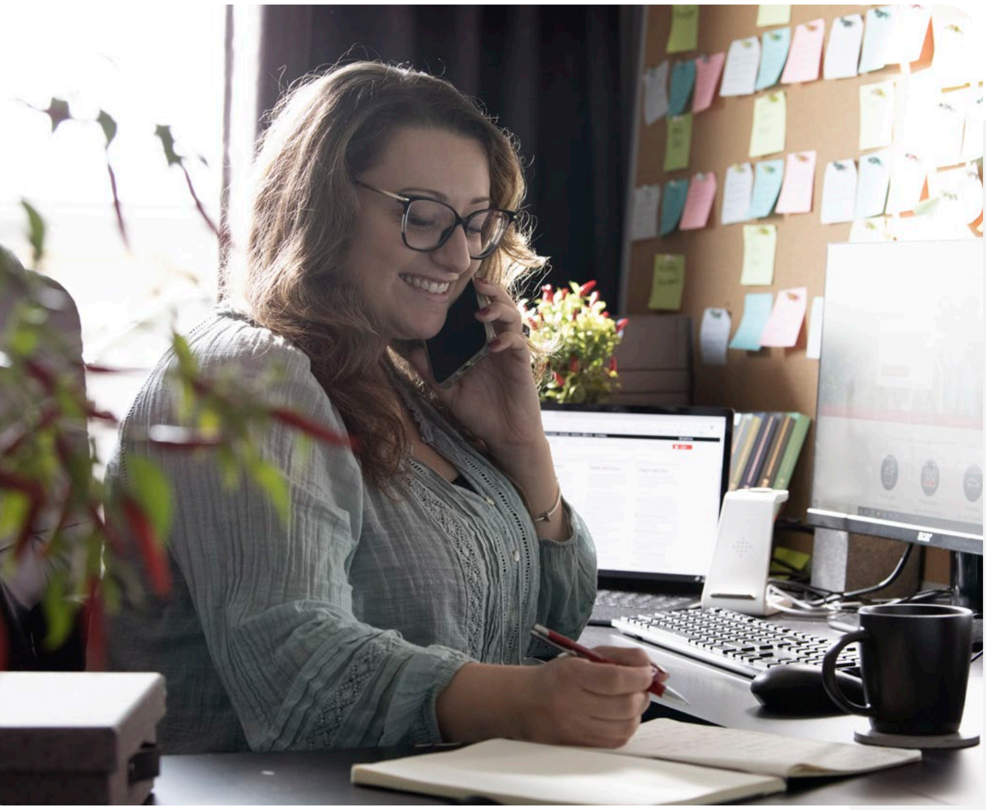
Pepper Money has a prudent approach to pricing for risk that combines our 22+ years of credit, loan servicing, and data and analytics experience. This is evident in our loan loss performance. Loan Losses as % of AUM, improved by 1bp from 0.23% in CY2021 to 0.22% in CY2022. As we expect there may be increased consumer stress over CY2023, reflecting further increases in early CY2023 as well as consecutive rates rises in CY2022, we continue to make sure we are well provisioned. At 31 December we hold a total provision for credit losses of $122.2 million, an increase of 10% on CY2021.

Our commitment to "help people succeed" and our focus on innovation saw us launch our new Mortgage solution – Near Prime Clear – and we further strengthened our range of product offerings in Asset Finance – particularly our Electric Vehicle lending and Novated Leasing.

For our customers and our partners, we strive to make the complex simple. Our credit decision consistency and turnaround times remain at the forefront of the market. We achieve this through our continued investment in our in-house, purpose-built technology, and how we leverage the data and insights we have built since business inception. The consistency in how we approach technology – by reinvesting the same levels year on year – sees not just our productivity improve – but demonstrates the business's strong capital discipline and ensures minimal change to depreciation charges. We continued to build and strengthen our distribution footprint, with total Accredited Mortgage brokers, across Australia and New Zealand increasing to 20,561 and accredited partners and introducers in Asset Finance growing to 1,996.

The year ahead

There is little doubt that CY2023 is likely to see the current challenging market conditions continue, but I am confident Pepper Money will continue to differentiate itself through its portfolio diversity, quality of assets, operational scale and efficiency underpinned by our core competencies of credit, funding, distribution and digitally enabled data. This positions us well to manage through the cycle.



Year in Review

VOLUME

Originations **$9.6bn** +14% PCP	**Originations grew $1.2 billion, 14% on PCP** **Mortgage** Originations increased $0.4 billion, +7%, on PCP to $6.8 billion. Focus on volume growth in the first half saw 1H CY2022 vs 1H CY2021 Originations grow +48%, on June 2021 to $4.1 billion, with a mix of 55% Prime, 45% Non-Conforming. Over the second half, as markets softened and interest rates rose, the business focus was to drive margin – with Origination mix moving to 47% Prime, 53% Non-Conforming (CY2022 average mix 52% Prime, 48% Non-Conforming). Mortgages delivered 2H CY2022 Originations of $2.6 billion. **Asset Finance** continued to deliver strong growth year on year with Originations closing CY2022 at $2.8 billion delivering 35% growth year on year. Market conditions were more stable in Asset Finance with 1H 2022 Originations of $1.5 billion (+67% on 1H 2021) and the second half delivering Originations of $1.3 billion.
Total AUM (close) **$19.2bn** +13% December 2021 (close)	**Total AUM[4] of $19.2 billion up 13% on PCP** **Lending AUM** closed December 2022 at $18.2 billion growth of 15% on December 2021 close. **Mortgages** increased $1.2 billion (+10%) to $13.5 billion. **Asset Finance** increased $1.2 billion (+35%) to a record $4.7 billion. **Servicing AUM** of $1.0 billion was down (16%) year on year as the Personal Loan service portfolio runs off.

CUSTOMER GROWTH

CY2022[5] **77,214** +29% PCP	Our mission to **'help customers succeed'** saw **77,214** new customers on boarded over CY2022 Our Mortgage business welcomed 12,016 new customers over CY2022 while Asset Finance welcomed 65,198 new customers, including 5,812 customers from Stratton acquired in July 2022.
Cumulative[6] **366,114** +27% PCP	Pepper Money's target to have helped more than **500,000** by the end CY2023 …has been extended to CY2024 given the slow-down in market conditions experienced in CY2022 that are expected to continue into CY2023.

4. Figures displayed are Closing AUM including Lending and Servicing.
5. Number of customers from 1 January 2022 to 31 December 2022. Includes net Stratton customer numbers for the 6 months to 31 December 2022.
6. Cumulative number of customers from 2004 to 31 December 2022. Includes net Stratton customer numbers for the 6 months to 31 December 2022.

OPERATING INCOME AND MIX

Total Operating Income

$408.2m

+9% PCP

Total Operating income[7] of $408.2 million grew 9% on PCP

Mortgage Operating income of $246.8 million, was marginally down on PCP by (4)%. While originations volume grew year on year, NIM compression and a slow down in the market in the second half of CY2022 all contributed to softening in revenues.

Asset Finance Operating income grew by 35% on PCP to $149.6 million as the business continues to drive scale, expand distribution footprint, leverage new products and channels and gain share.

Loan and Other Servicing Operating income at $11.0 million grew 25% on PCP driven by the Broker Servicing business which commenced operating in Q4 CY2020.

Business Mix

60% Mortgages

37% Asset Finance

3% Other

Further strengthening in **balance portfolio** with **Asset Finance** contributing **37%** of Total Operating Income

Demonstrating Pepper Money's capability to build and grow organically – **Asset Finance**, started in Q4 CY2014 – is now contributing 37% of Total Operating Income, up from 29% in CY2021 and 24% in CY2020.

Loan and Other contribution to Operating Income at 3% is up from 2% in CY2021 and 1% in CY2020 as the annualisation of growth in the income from Broker Servicing is marginally offset by the run off of serviced portfolios, including Personal Loans.

PROFITABILITY

Statutory NPAT

$140.5m

+8% PCP

Statutory NPAT grew 8% for the full year to $140.5 million

The ability of the business to manage through cycles was seen through the 8% growth in Statutory NPAT to $140.5 million in CY2022.

Pro-forma adjustments in CY2022 were $(1.5) million pre-tax in one-off costs associated with the acquisition of Stratton Finance Pty Ltd. CY2021 Pro-forma adjustments of $(16.1) million pre-tax relate specifically to the IPO of the business in May 2021.

Pro-forma NPAT

$142.0m

+0.1% PCP

Pro-forma NPAT of $142.0 million was in line with CY2021

In a year that saw 8 consecutive interest rate rises in Australia, increased pressure from high levels of inflation, a deterioration in the cost of funds, continual volatility in BBSW and swap rates, intense market competition, and a softening in the Australian property market, Pepper Money maintained Pro-forma NPAT year on year, to marginally exceed record profits posted in CY2021.

7. Total Operating Income – Corporate segment not shown due to materiality but included in the total.

OUR SHAREHOLDERS

Final Dividend per share

5.1 cents

Pepper Money has declared a **fully franked** final dividend of **5.1 cents** per share

This represents a payout ratio of 32.50% on second half Pro-forma NPAT.

Total Dividend per share

10.5 cents

+16% PCP

Total Dividend

$46.1m

Pepper Money delivered to shareholders **fully franked full year** dividends of **10.5 cents** per share

This is an increase of 16% on CY2021 and represents an annualised yield of 6.3%[8].

In total, Pepper Money will pay $46.1 million in dividends to shareholders in respect to CY2022 performance.

Earnings per Share

31.97 cents

Earnings per share of **31.97** cents

After normalising CY2021 number of basic shares to reflect a full year of listing, EPS grew 10%.

OUR PEOPLE

Employee Engagement[9]

78 Australia/ New Zealand

81 Manila

Pepper Money is known for its **values**

Our values are what attracts people to join Pepper Money and why they choose to stay.

Again, in CY2022 Pepper Money Employee Engagement scores in Australia/New Zealand and in our operations unit in Manila held our position of being in the top 10% of companies globally.

We continue to invest in our people with a focus on building a workforce fit for the future.

Our People

55% Female

45% Male

Diversity and Inclusion

At Pepper Money we are collaborative and inclusive. In CY2022, 55% of roles across the Company were held by females, including 41% of Senior Manager roles.

Mario Rehayem
CEO, Pepper Money Limited

8. Annualised dividend yield based on average 1 January 2022 – 31 December 2022.
9. Pepper Money Limited CY2022 Employee Engagement Survey conducted by Custom Insights, 5 September – 16 September 2022.

Executive Team

The following persons were the Executive Leadership Team of the Company during the year and up to the date of this report:

Mario Rehayem

Chief Executive Officer

See Directors bio on page 6.

Therese McGrath

Chief Financial Officer

Joined Pepper Money in 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.

Anthony Moir

Treasurer

Joined Pepper Money in 2021. Anthony is responsible for the leadership of Pepper's treasury function including the strategic direction and execution of Pepper's multicurrency funding programs. Anthony brings more than 25 years of experience in treasury and debt capital markets, previously held positions at bank and non-bank lenders including Qudos Bank, GE Capital, AMP, Commonwealth Bank of Australia and Citigroup.

Barry Saoud

General Manager, Mortgages and Commercial Lending

Joined Pepper Money in 2021. Barry has over 20 years' experience in the financial services industry in Sales, Product Management, Legal and Company Secretary roles. Previously Barry held leadership roles at Aussie Home Loans, GE Capital, HSBC and Norton Rose Fulbright.

John Williams

General Counsel and Company Secretary

Joined Pepper Money in 2012. 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 Jacques (now King & Wood Mallesons).

Ken Spellacy

General Manager, Asset Finance

Joined Pepper Money in 2015, Ken brings Over 25 years' experience in the asset finance industry. Prior to Pepper Ken held senior leadership roles across various financial institutions including Capital Finance, St.George Bank and Westpac Banking Corporation.

Matthew Tinker

Chief Service Officer

Joined Pepper Money in 2011. Matt has over 15 years' experience in financial services in Operations and Project Management roles, having previously held leadership roles at the Commonwealth Bank of Australia and Woolworths Group.

Michael Vainauskas

Chief Risk Officer

Joined Pepper in 2020. Michael is responsible for ensuring that the Governance, Risk, Compliance and Control Strategies and Frameworks are designed and operating effectively. Prior to Pepper Money, Michael held various senior roles at Perpetual Limited, Commonwealth Bank of Australia and Westpac Banking Corporation.

Neil Culkin

Head of Credit and Settlements – Mortgages & Commercial Lending

Joined Pepper Money in 2011, Neil has over 20 years' experience in credit provision. Neil has overall responsibility for the credit and originations function for Pepper's Australian and New Zealand residential and commercial mortgage products. His role oversees the underwriting, settlement and credit control of mortgage loan applications as well as being responsible for updating and implementing associated lending policies and guidelines. Prior to Pepper Neil worked in various financial institutions including Members Equity, St.George Bank and non-bank lender Resimac Limited.

Sarah Pikardt

General Manager, Marketing & Brand

Joined Pepper Money in 2011. Sarah leads the marketing effort and strategic development of the Pepper Money brand with a focus on improving customer experience. Previously Sarah managed workforce optimisation and customer loyalty programs for Synchro Marketing across financial services, telecommunications and automotive industries.

Steven Meek

Chief Information Officer

Joined Pepper Money in 2021 and has overall responsibility for digital, technology, data and analytics. Steven brings more than 20 years of diverse experience leveraging technology to drive business growth, operational performance, customer experience and innovation in organisations including Macquarie Group and Coca-Cola Amatil.

Sue Kent

Chief Human Resource Officer

Joined Pepper Money in 2009. Sue leads the human resources team for Pepper Money, providing strategic and operational initiatives to support Pepper Money's people management practice. Prior to Pepper Money Sue held senior positions with Nestlé Australia, Philips Electronics and BHP Limited.

Operational and Financial Review

1. Our Purpose and Strategy

Mission	We help people succeed.
Focus	We focus on the underserved and undervalued segments.
Pillars	Customer, Business, People, Brand
Values	Can do, Balanced, Real
Core Competencies	Credit Expertise, Distribution, Data and Digitally Enabled, Funding Capabilities

Pepper Money is one of the largest non-bank lenders in the Australian mortgage and asset finance markets, with an growing presence in New Zealand mortgages.

Pepper Money commenced business in Australia in 2001 as a provider of home loans to consumers who fall just outside the lending criteria of traditional bank and non-bank lenders, otherwise known as the non-conforming or specialist mortgage market.

Over time, Pepper Money has broadened its Australian business activities to include the origination of prime residential mortgages, commercial real estate loans, auto and equipment finance and novated leasing as well as third party loan servicing and broker servicing. In 2019, Pepper Money expanded its focus to include residential mortgages in New Zealand. In the second half of CY2022 completed the acquisition of 65% of Stratton Finance Pty Ltd – one of Australia's largest online asset finance brokers.

Pepper Money's mission has always been to **'help people succeed'**, with a focus on providing innovative home loan and asset finance solutions to customers who are underserved by traditional lenders.

At Pepper Money we believe that success comes from our people, and our values of **Can Do, Balanced** and **Real** provide the anchors to how we do business and support our customers, partners and communities. Our four pillars of Customer – Business – People and Brand – link our vision and mission to the Company's strong values. The depth and strength of our core competencies provide the foundations for Pepper Money's continued ability to grow and adapt in ever changing market conditions:

Credit and Underwriting	Credit processes and embedded decisioning engine developed with the experience of originating and managing over $50.4 billion of loans since 2001. Innovative product solutions – cascading credit model delivering a faster and higher probability of yes. With a single application a borrower is assessed against three separate credit policies cascading across Prime to Near Prime to Specialist in Mortgages and Tier A – Tier B and Tier C in Asset Finance – based on the customer profile.
Distribution	Leading technology solutions that enhance distribution partner and customer experience while supporting efficient scaled growth. Support to distribution partners through digital tools and data analytics that allow them to grow their business through enhanced opportunity management and supporting customer journey.
Data and Digital	Pepper Money synthesises customer and transactional data – mined over 22+ years – with externally sourced data to enrich data sets and provide insights into credit appetite, product positioning and pricing for risk. Using a range of different techniques, including machine learning and artificial intelligence (AI) to analyse the data and deliver real time insights to the business.
Funding	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.

2. Business segment overview

Pepper Money has a broad product offering within its Mortgage and Asset Finance businesses that cater for a range of customer needs. With over 22 years' experience in helping customers who do not fit the lending criteria of traditional banks, Pepper Money continues to deliver growth by leveraging its core capabilities to build complementary customer solutions and expand its addressable market into new adjacencies.

Entering CY2022, the business focus in the first half of the year, was on delivering volume growth. This was in the expectation that markets would materially slow over the second half, as interest rate rises took hold and inflationary pressures continued. The focus on driving volume in 1H CY2022 saw Pepper Money finish the year with record Originations – across both business segments – with Mortgages delivering Originations of $6.8 billion (+7% PCP) and Asset Finance achieving $2.8 billion (+35% PCP) in Originations.

As market conditions softened over 2H CY2022, Pepper Money's broad product range, and strong position in non-conforming market segments, allowed the business to shift focus to growing higher yielding mortgages. While total Originations of $4.0 billion in 2H CY2022 were below 1H CY2022, Mortgage Origination mix moved from 45% Non-Conforming in the first half to 53% in the second half of the year.

On 1 July 2022, Pepper Money completed the acquisition of 65% of Stratton Finance Pty Ltd (Stratton). Stratton is one of Australia's leading online direct-to-consumer asset finance broking platforms. Stratton has been incorporated under the Asset Finance segment given common customer base, and revenue and cost synergies.

The three core segments Pepper Money operates in, and summary performance for CY2022, are as follows:

Segment	Mortgages	Asset Finance	Loan and Other Servicing
			
Description	• Finance residential home loans in Australia and New Zealand and small balance commercial real estate loans in Australia	• Finance a 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 Leasing	• Residential home loans servicing • Personal loans servicing • Broker servicing
Originations (CY2022)	**$6.8 billion** +7% PCP	**$2.8 billion** +35% PCP	
Originations Mix (CY2022)	**Prime** 52% **Non Conforming** 48%	**Tier A** 59% **Tier B** 33% **Tier C** 9%	
AUM (December 2022 close)	**$13.5 billion** +10% PCP	**$4.7 billion** +35% PCP	**$1.0 billion** (16)% PCP
NIM % (CY2022)	**1.98%** (35) bps PCP	**2.91%** (50) bps PCP	
Operating Income (CY2022)	**$246.8 million** (4)% PCP	**$149.6 million** +35% PCP	**$11.0 million** +25% PCP
Brokers/Partners (CY2022)			
Accredited:	20,561[1]	1,996	
Active[2]:	**5,214**	**1,247**	

1. Accredited/Active Mortgage Brokers include Retail and White-label for Australia and New Zealand.
2. Active Brokers / Partners: partners / brokers who have settled at least one deal in the CY2022.

3. Financial performance

For the year ended 31 December 2022

3.1 Reconciliation of Statutory Profit to Pro-forma Profit

To reflect Pepper Money's Pro-forma earnings, Net profit after tax ('NPAT') has been adjusted to exclude one-off items[3]. Management believes 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 table below reconciles Pepper Money's Statutory NPAT to the audited Pro-forma NPAT for the year in accordance with Australian Accounting Standards ('AASB').

Pepper Money completed the acquisition of a 65% interest in Stratton Finance Pty Ltd on 1 July 2022. The consolidated results presented therefore include Stratton for the six months to 31 December 2022. Stratton is an online direct-to-consumer asset finance broking platform and has been consolidated under the Asset Finance segment. Given Pepper Money's controlling interest, Stratton results are fully consolidated (continuing operations) with the minority shareholding recognised under Non-controlling interest. On consolidation, commission paid by Pepper Money to Stratton is eliminated, while Stratton's operating costs are fully consolidated.

Reconciliation of Statutory Profit to Pro-forma Profit

$M	CY2022 Statutory	CY2022 Pro-forma	CY2021 Pro-forma	$M Change Pro-forma	% Change Pro-forma
Net interest income	**388.9**	388.9	366.6	22.3	6%
Other operating income	**52.6**	52.6	33.8	18.7	56%
Loan losses	**(33.3)**	(33.3)	(24.6)	(8.7)	35%
Total operating income	**408.2**	**408.2**	**375.8**	**32.4**	**9%**
Operating Expenses	**(172.8)**	(171.3)	(144.6)	(26.7)	(18%)
Depreciation and amortisation expense	**(20.4)**	(20.4)	(24.6)	4.1	17%
Corporate interest expense	**(13.3)**	(13.3)	(4.3)	(9.0)	(209%)
Tax expense	**(61.2)**	(61.2)	(60.4)	(0.8)	(1%)
Net profit after income tax from continuing operations	**140.5**	**142.0**	**141.9**	**0.1**	**0%**
Equity Holders of Pepper Money Limited	**141.0**	142.5	141.9	0.6	0%
Non-controlling interest	**(0.5)**	(0.5)	–	(0.5)	N/A

3. Pre-tax Pro-forma adjustments for CY2022 of $(1.5) million are one-off in nature as they relate to the acquisition of Stratton Finance Pty Ltd completed 1 July 2022. CY2021 total $(16.1) million, Pro-forma adjustments relate to the IPO.

3.2 Financial performance and key driver analysis

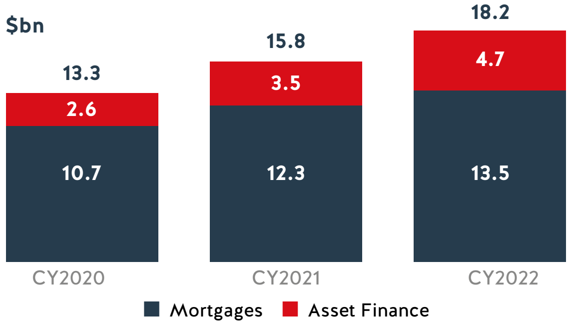
Financial Drivers

VOLUME

Lending AUM (close)

$18.2bn

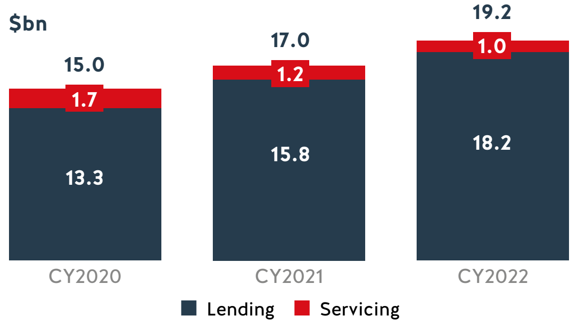
+15% December 2021 (close)



Total AUM (close)

$19.2bn

+13% December 2021 (close)



Lending AUM of $18.2 billion up **15%** on PCP.

Lending AUM increased $2.4 billion on December 2021 (+15%) to close December 2022 at $18.2 billion.

Mortgages increased $1.2 billion (+10%) to $13.5 billion and **Asset Finance** increased $1.2 billion (+35%) to $4.7 billion.

Total AUM of $19.2 billion up **13%** on PCP.

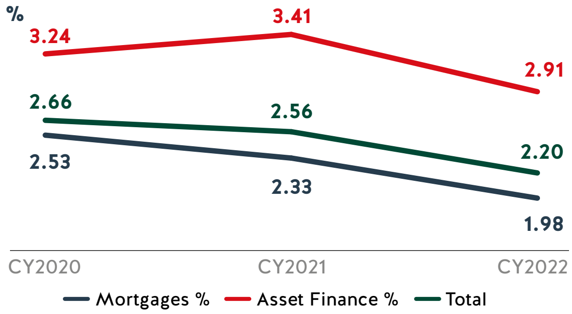
Servicing AUM of $1.0 billion, was $(0.2) billion below December 2021 close. The decline in Servicing AUM was due to the run off of the Personal Loan portfolio which Pepper Money sold at the end of CY2018 and which it continues to provide servicing support for.

MARGIN

Net Interest Margin

2.20%

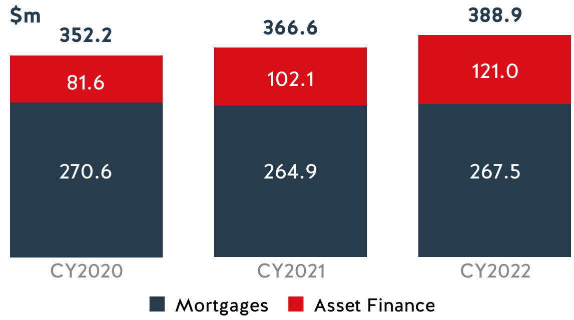
(36)bps PCP



Net Interest Income[4]

$388.9m

+6% PCP



Net Interest Margin of 2.20% was (36)bps below PCP.

Net Interest Margin (NIM) continued to experience compression, declining (36)bps on CY2021 due to strong competition impacting customer rates, rising swap rates, volatility in BBSW and higher funding costs.

Mortgages NIM of 1.98% for CY2022 declined (35) bps on CY2021. While Pepper Money implemented back and front book price increases following the Reserve Bank of Australia increases to the official cash rate, the lag between BBSW increasing in advance of RBA rises and changes to customer rates drove NIM compression. NIM was further impacted by increased cost of funds as funding spreads return to pre COVID levels.

Asset Finance NIM of 2.91% for CY2022 declined (50) bps on CY2021. Rising swap rates and funding margins drove a decline in margins. Pepper Money partially recovered the rise in funding costs / swap rates through pricing increases. NIM was also impacted by business mix – as Novated Leasing, which has lower NIM, increased in contribution. While Novated Leasing has lower NIM this is partially offset by lower loan losses.

Net Interest Income of $388.9 million up **6%** on PCP.

Net Interest Income (NII) from lending activities grew by $22.3 million on PCP, driven by originations in the first half supporting year on year growth in exit lending AUM.

Mortgages NII grew 1% on PCP to $267.5 million, with volume growth being offset by higher funding costs.

Asset Finance NII increased 18% on PCP to $121.0 million, with strong originations growth being partially eroded by rising swap rates and business mix.

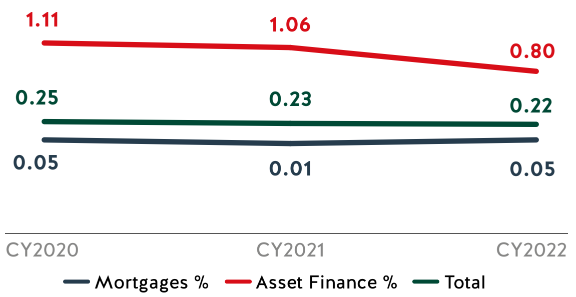
4. Loan and Other Servicing segment and Corporate division net interest income not displayed in the bar chart as amounts are immaterial.

CREDIT QUALITY

Loan Losses (excluding Management Overlay) % AUM

0.22%

+1bp PCP



Credit Expense

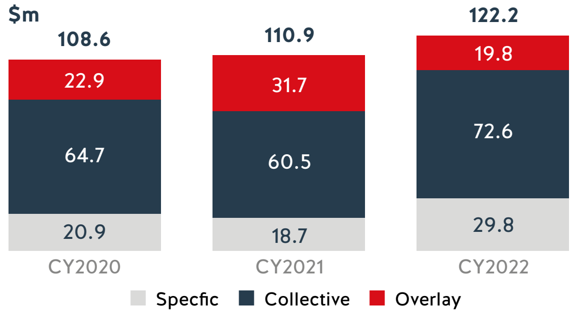
$33.3m

(35%) PCP

Credit Provisions

$122.2m

+10% PCP



Loan losses (excluding Management Overlay) **as % of AUM 0.22%** improved **1bp** on CY2021 (0.23%).

Excluding the impact of Management Overlay, the quality of credit performance is seen through Loan Losses as % of AUM, which have improved 1bp from 0.23% in CY2021 to 0.22%.

Mortgages has marginally increased by (4)bps on PCP reflecting a higher weighting towards the 'downside' case in the expected credit loss model inputs.

Asset Finance Loan Losses % of AUM declined 26bps on PCP to 0.80% for CY2022 Originations, as clean credit profile as a proportion of Originations increased 48%[5] vs PCP (Tier A origination growth excl. Novated Lease of 32% vs PCP), driven by an increase in Commercial Tier A products of +41% vs PCP and Novated Leasing segment (+355%) – which has near zero loss rates given salary sacrifice.

Total Credit expense increased by $(8.7) million on PCP. **Total Credit provisions** of **$122.2 million** increase **10%** on PCP.

An increase on the weight of 'downside' case in respect of macro-economic variables that drive credit modelling was applied in CY2022. This was considered prudent given the likelihood that the 8 consecutive interest rate rises by the RBA from May to December 2022 had not yet affected consumer disposable income.

Including model overlays total Credit Expense increased (35)% on PCP to $33.3 million. CY2022 included a reduction of $11.9 million model overlay in Asset Finance given underlying portfolio performance and clean credit mix.

Pepper Money continues to hold $19.8 million in Post Model Overlay.

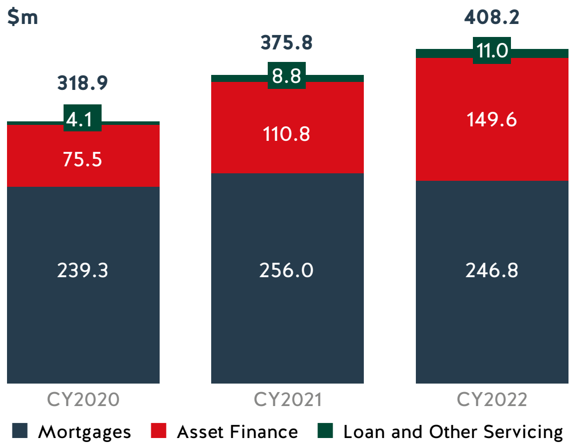
5. 48% clean credit profile combination of Tier A Consumer and Commercial originations, plus all Novated Leases.

TOTAL OPERATING REVENUE

Total Operating Income

$408.2m

+9% PCP



Total Operating income[6] of **$408.2 million** grew **9%** on PCP.

Mortgage Operating income of $246.8 million was marginally down (4%) on PCP. While Mortgage Originations increased 7% on PCP, NIM compression coupled with an increase to credit expense impacted underlying Operating Income.

Asset Finance Operating income grew by 35% on PCP to $149.6 million as the business continues to drive scale and gain share. The positive credit performance of the portfolio continued and credit expenses reduced due to the part release of Post Model Overlays.

Asset Finance contributed 37% of Total Operating Income up from 29% in CY2021 and 24% in CY2020.

Loan and Other Servicing Operating income at $11.0 million grew 25% on PCP driven by the Broker Servicing business which commenced operating in Q4 CY2020.

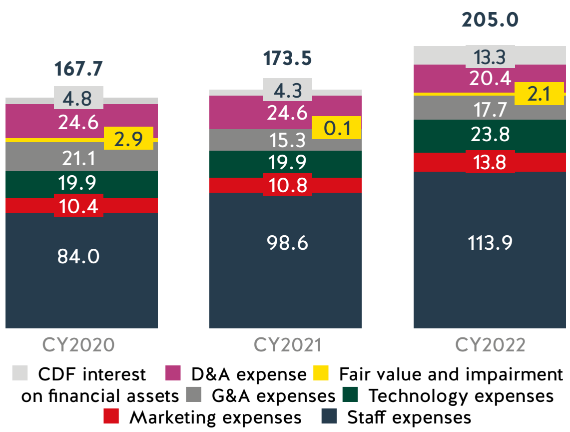
6. Total Operating Income – Corporate segment not shown due to materiality but included in the total.

COST MANAGEMENT

Pro-forma Total Expenses[7]

$205.0m

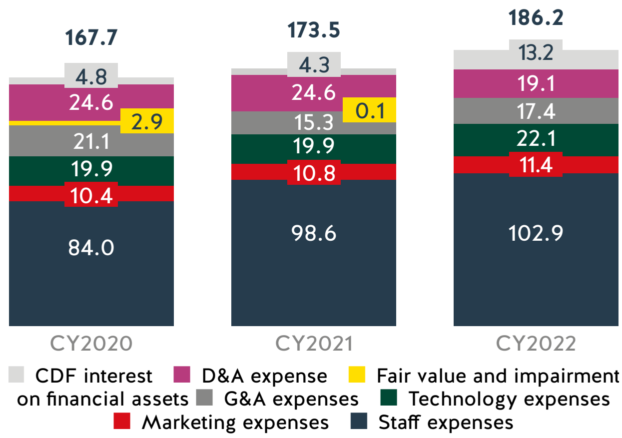
(18)% PCP



Normalised Pro-forma Total Expenses[8]

$186.2m

(7)% PCP



Pro-forma Total Expenses of **$(205.0) million**, increased **(18)%** on PCP.

Pro-forma Total Expenses includes six months expenses for Stratton.

Staff expenses increase of (16)% on PCP is driven by increased FTEs in support of the Broker Servicing business and Stratton Finance.

Staff expenses per average FTE of $105k improved 10% on PCP as core lending FTE reduced by 101 FTE, and new FTE added for Broker Servicing undertaken in the lower cost operations in Manila.

Technology cost increase reflects the consolidation of Stratton.

Marketing spend was constant year on year in lending. The increase reflects the investment in online broking demand generation.

Corporate Interest is interest payable on corporate debt facilities. The increase year on year reflects the significant increase in BBSY/BBSW – the base for interest – coupled with higher draw down on facilities.

Other include $(2.1) million impairment in relation to an equity investment in Volt Bank following the return of their banking license on 29 June 2022.

Normalised Pro-forma Total Expenses of **$(186.2) million**, **(7)%** increase on PCP.

Normalised Pro-forma Expenses adjust the expense base to remove for the consolidation of Stratton (including amortisation of Intangibles), and the one-time impairment of the equity investment in Volt Bank.

Staff expenses increase of (4)% on PCP is driven by increased FTEs in support of the Broker Servicing business and underlying salary and wage inflation.

Normalised Staff expenses per average FTE of $102k improved +12% on PCP.

Technology cost increase of $(2.2) million year on year reflects underlying contract inflation, new software licenses as core platforms are rolled and in support of FTE growth for Broker Servicing FTE in Manila (fully recovered through Servicing Operating Income).

Marketing spend increase of $(0.6) million reflects the underlying investment rate of 2.5-3.0% of Total Operating Income.

G&A Spend increase of $(2.1) million year-on-year largely reflects the impact of being a full year of expense items such as Investor Relations, following the IPO May 2021.

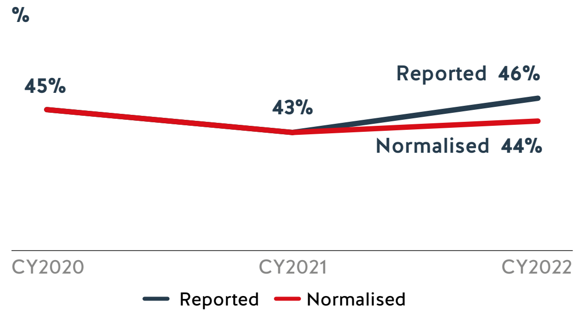
Corporate Interest is interest payable on corporate debt facilities. The increase year on year reflects the significant increase in BBSY / BBSW – the base for interest – coupled with higher draw down on facilities.

7. Pro-forma Total Expenses includes depreciation & amortisation and corporate interest expense.
8. Normalised Pro-forma Total Expenses are Pro-forma Total Expenses, normalised for the six months of Stratton, one-off impairment of equity investment in Volt Bank of $(2.1) million (CY2021: $nil), and amortisation of acquired intangibles $(0.5) million (CY2021: $nil).

CTI

46%
Reported[9]
(3)% PCP

44%
Normalised[10]
(1)% PCP



CTI of **46%** was higher than **CY2021 by (3)%, Normalised CTI** of **44%** was **(1)% higher** than PCP.

The impact of macro, market, and competitive factors on Total Operating Income growth coupled with the consolidation in the second half of CY2022 of Stratton drove **CTI up by (3)%** on PCP – below underlying inflation – reflecting on going efficiency and scale gains.

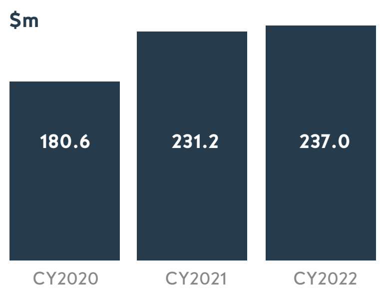
Adjusting the expense base to remove the impairment in equity investments and the first six months for Stratton, **Normalised CTI** of **44%** is (1)% higher than CY2021.

PROFITABILITY

Pro-forma EBITDA[11]

$237.0m

+3% PCP

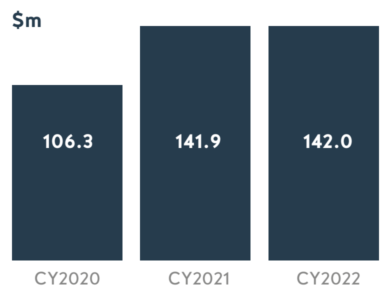


The business delivered **3%** growth in **Pro-forma EBITDA** to $237.0 million.

Pro-forma NPAT

$142.0m

+0.1% PCP



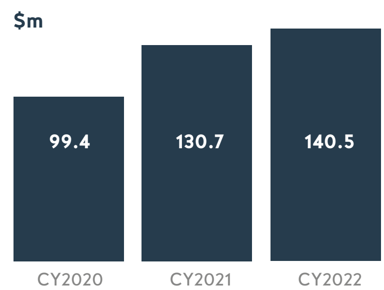
Pro-forma NPAT of **$142.0 million** was in line with PCP.

Pro-forma NPAT of $142.0 million was in line with CY2021, as volume growth was offset by NIM compression, market conditions and the step up of cost given the consolidation of Stratton in 2H CY2022.

Statutory NPAT

$140.5m

+8% PCP



Statutory NPAT $140.5 million up **8%** on PCP.

The business incurred $(1.5) million pre-tax in one off costs associated with the acquisition of Stratton Finance Pty Ltd. In CY2021, one-off IPO related costs were $(16.1) million pre-tax.

9. CTI is defined as Pro-forma Total Expenses divided by Total Operating Income before Loan Losses.
10. Normalised CTI is defined as Normalised Pro-forma Total Expenses divided by Total Operating Income before Loan Losses.
11. EBITDA: Earnings before interest, tax, depreciation.

4. Funding and Capital

4.1 Funding

Pepper Money continues to be one of Australia's largest and most experienced non-bank lenders. Pepper Money has been issuing securitisation deals since 2003 and has a 100 per cent track record of calling every deal at the first available call date. The Company is seen as a 'benchmark' Australian non-bank issuer of Residential Mortgage-Backed Securities (**'RMBS'**) and Asset Back Securities (**'ABS'**) through the history, frequency, scale, volume, performance and diversification of its debt-funding capital markets program.

Pepper Money's funding approach is to originate 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. A summary of Pepper Money's funding facilities is as follows:

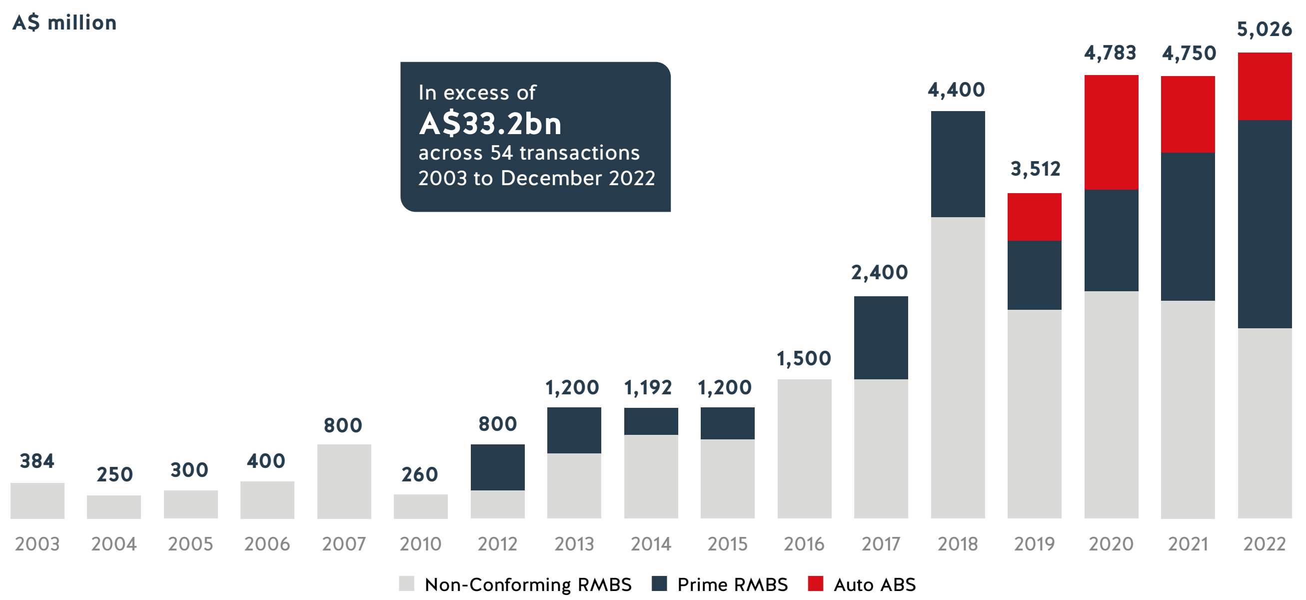
- **Warehouse Facilities:** limited recourse Funding Vehicles established by Pepper Money and provided by funding partners that finance the origination or purchase of new loan assets, or the purchase of loan assets from Term Transactions to facilitate the exercise and fulfilment of call options.
- **Public 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 a third-party 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[12].

Pepper Money has four Public Term Securitisations programs – *Pepper-Prime*, *PRS*, *Pepper-Social* and *SPARKZ* – and over CY2022, the following new issuances were made to support the growth of the business and fund assets:

Public Securitisations	Issuance size	Settlement date
RMBS		
Non-Conforming		
• PRS 32	$500.0 million	30 March 2022
• Pepper Social Trust No. 1	$300.0 million	9 June 2022
• PRS 33	$500.0 million	28 July 2022
• PRS 34	$750.0 million	13 October 2022
Prime		
• Pepper Prime 2022-1	$1,000.0 million (included $330 million Green Bond)	16 March 2022
• Pepper Prime 2022-2	$1,250.0 million	8 September 2022
ABS		
• SPARKZ 5	$725.8 million	19 May 2022
	$5,025.8 million	

12. Subject to standard representations and warranties provided by Pepper Money Limited.

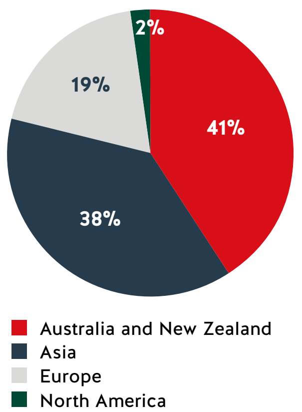
Since 2003, Pepper Money has securitised in excess of $33.2 billion across 54 transactions:

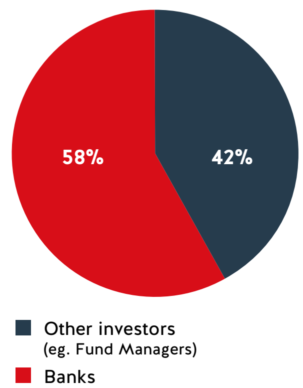


Total warehouse facility capacity at 31 December 2022 of $11.3 billion represents a 14% growth on PCP and positions the Company with the flexibility to capitalise on growth opportunities across all asset classes.

Funding composition for CY2022 Public Term issuances show the strength of Pepper Money's investor base with 59% international and 41% from Australia. The support from key banks was again demonstrated, by the 58% contribution of total public issuance in CY2022.

CY2022 Public Term Securitisation





4.2 Capital and Liquidity Management

Pepper Money's cash resources, including cash funded via Pepper Money's Corporate Debt Facility and Debt Issuance Program, are used to fund Pepper Money's investment in Junior Securities in Warehouse Facilities and Term Securitisations, investment in CRR (Credit Risk Retention) Securities to meet credit risk retention requirements, funding of various loan assets (predominantly seed pools for new asset classes) and other operating expenses.

The key terms of the corporate debt facilities are summarised below:

Facility Name	Syndicated Facility Agreement[13]	Medium Term Notes
Commencement Date	27 May 2021	13 October 2021
Facility Size	A$200 million Revolving cash advance facility	
Drawn as of 31 December 2022	A$145 million	A$120 million
Interest and Fees	At a minimum, the CDF bears interest at the 90-day BBSY[14] rate (the Australian bank bill swap reference rate (bid)) plus a variable margin. Fees paid/payable in connection with the CDF include the following: • a one-off upfront fee paid on drawdown of the CDF • an ongoing commitment fee on the undrawn portion of the commitments	The Medium-Term Notes bear interest at 3-month BBSW[15] plus a margin, which increases over time. A one-off upfront fee paid on drawdown of the Notes.

At 31 December 2022, Pepper Money had unrestricted cash balances of $114.3 million. Drawn corporate debt facilities at 31 December 2022 were $265.0 million. Total corporate liquidity was $169.3 million as at the end of CY2022. The Company remains focused on maintaining prudent capital levels to provide flexibility given market uncertainty.

5. Dividend

A fully franked CY2021 dividend of 9.0 cents per share was paid on 15 April 2022.

A fully franked CY2022 interim dividend of 5.4 cents per share was paid on 14 October 2022.

The Board has declared a fully franked final dividend of 5.1 cents per share to be paid 14 April 2023[16]. The final dividend represents a payout ratio of 32.50% of the Pro-forma NPAT from the period 1 July 2022 to 31 December 2022, and is consistent with the payout ratio of 30-40% set under the Board Dividend Policy[17]. The Board believes the dividend recognises the ongoing strong performance of the business and the ability of Pepper Money to deliver consistent returns to shareholders.

On a full year basis, fully franked dividend paid or payable of 10.5 cents per share represents an annualised yield of 6.3%.

Final Dividend	Pro forma NPAT	Statutory NPAT
Average Share Price[18]	**$1.49**	$1.49
WANOS (millions) on issue	**439.6**	439.6
Dividend %	**32.50%**	32.76%
Dividend	**$22.4m**	$22.4m
Dividend per Share	**$0.051**	$0.051

13. Known as the Corporate Debt Facility (CDF).
14. BBSY: Australian Bank Bill Swap Bid Rate.
15. BBSW: Australian Bank Bill Swap Rate.
16. Record date for final dividend 14 March 2023.
17. As per Pepper Money Limited Prospectus – Initial Public Offering of Ordinary Shares. Section 4.10 page 181.
18. Average share price as per ASX close: 1 July 2022 – 31 December 2022.

Full Year Dividend	Pro forma NPAT	Statutory NPAT
Average Share Price[19]	**$1.66**	$1.66
WANOS (millions) on issue	**439.6**	439.6
Dividend %	**32.50%**	32.83%
Dividend	**$46.1m**	$46.1m
Dividend per Share	**$0.105**	$0.105
Dividend yield[20]: Annualised	**6.3%**	**6.3%**

6. Risk Management Framework, Material Risks and Business Uncertainties

6.1 Risk Management Framework

Risk management is an integral part of Pepper Money's business model. We recognise that risk and compliance management drive sustainable customer and business outcomes and is core to Pepper Money delivering on its strategy, mission and purpose.

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.

Pepper Money's Board 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 outlined below. Policies, procedures, and limits are defined to ensure activities remain within an understood and appropriate level of risk. Pepper Money continues to evolve our approach to risk and compliance management, given the ever-changing needs of the business and our customers.

19. Average share price as per ASX close: 1 January 2022 – 31 December 2022.
20. Dividend yield based on average 1 January 2022 – 31 December 2022.

Risk Management Framework	Board and Strategy Risk Appetite Statement Risk Management Strategy	
Residual	**Financial Risks** • Credit Risk • Liquidity Risk • Market Risk	**Non-Financial Risks** • Compliance • Operational • Reputational/Conduct Risk
Inherent	**Strategic Risks**	
Independent Validation and Testing	**Internal Audit (3rd Line of Accountability)**	
Risk Policies	**Risk Management (2nd Line of Accountability)** • Credit Policy • Funding Policy • Compliance Policy	 • Operational Risk Management Policy • Business Resilience Policy
Procedures and Supporting Documents	**Business (1st Line of Accountability)** • Procedures • Standards • Guides	 • Manual • Registers

RISK CULTURE

All employees at Pepper Money have a role to play in risk management. Fundamental to the RMF is the '**three lines of accountability**' 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. The model ensures risks are identified and issues are escalated, with a clear separation between the first, second and third lines of accountability:

1st Line: 1st line Management are accountable and responsible for management of risks, compliance obligations and controls.

2nd Line: Line 2 Risk and Compliance establishes frameworks and policies to assist and provide oversight to 1st line activities, with the management, monitoring and reporting of risks and compliance obligations.

3rd Line: is an independent function – Internal Audit – which provides independent assurance on the adequacy and effectiveness of risk and compliance management.

Other key components to the RMF include:

Risk Governance

Pepper Money has established risk governance through a comprehensive committee structure to support the management of risks, including the

- Audit and Risk Committee (Board),
- Executive Risk Committee (Management),
- Credit Committee (Management),
- Product and Pricing Committee (Management) and
- Asset and Liability Committee (Management).

Culture, Training and Awareness

The Board operates with risk management as a key focus and has implemented a 'tone from the top' approach.

The importance of risk culture is driven from the Board to the Management team and then across the organisation. This includes operating with an awareness of the three lines of accountability, Pepper Money's strategy and risk appetite and an understanding of how this translates to individual roles, responsibilities and day-to-day processes.

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,
- collections and litigation,
- accounting,
- anti-money laundering (AML) and
- loan documentation,
- complaints procedures,
- investor reporting,
- system usage.

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.

For further information please refer to Pepper Money's Corporate Governance Statement at: **www.peppermoney.com.au/about/corporate-governance.**

6.2 Operating environment evolving material risks

Pepper Money operates in a constantly evolving environment which places the understanding and management of risks at the forefront. Pepper Moneys' RMF provides the mechanism for the Board, Management and employees to effectively identify, evaluate and adjust for the changing risk environment.

The most significant risks that the Company face have been determined to be 'material risks', which are risks that may affect Pepper Money's ability to meet its obligations. Pepper Money categorises key material risks into financial and non-financial as below:

Framework	Risk Management Framework	
Tolerance Levels	Risk Appetite Statement	
Material Risks Categories	**Financial**	**Non-Financial**
Risks	• Macroeconomic Risk • Credit Risk • Funding Risk • Interest Rate Risk • Labour Market Risk	• Environment, Social and Governance Risk • Cyber Risk • Data Risk • Technology Risk • Regulatory and Compliance Risk • Conduct Risk

6.2.1 Financial Risks

KEY RISK	HOW PEPPER MONEY RESPONDS
Macroeconomic risk arises from factors such as inflationary pressures, unemployment, underemployment, interest rates, lack of income growth, business investment, government spending, government policy, the volatility and strength of the global and Australian / New Zealand capital markets, currency value and exchange rates all affect the business and economic environment.	• Pepper Money continuously monitors the risk of changes in the Australia / New Zealand and global environment that restricts access to capital. • Pepper Money manages the business responsibly, protecting the Company's strong capital position and maintaining conservative buffers to address uncertainties, in line with the Company's Liquidity Policy and Funding Strategy.
Credit risk: 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. 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.	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; • **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.
Funding 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 continuously monitors the risk of changes in the Australia / New Zealand and global environment that restricts access to capital. • Pepper Money maintains a Liquidity Policy and Funding Strategy which are 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.

KEY RISK	HOW PEPPER MONEY RESPONDS
Rising interest rates risk: Pepper Money is exposed to the risk 1) that customers do not meet their financial obligations (e.g. their obligation to repay loans) or become insolvent if the customer's available income decreases. An increase in the customer's payment obligations – materially driven by increased interest rates – or living expenses. Customer defaults may also increase as a result of adverse business or economic conditions; 2) within its Asset Finance business, where the portfolio is fixed rate.	• Pepper Money continuously monitors the risk of changes to customer circumstances and applies data analytics to monitor and access impacts of macroeconomic and other factors (for example changes to house prices) on customers ability to meet their obligations. • Pepper Money manages ongoing oversight of customers under the Risk Management Framework via the Credit Committee. • Pepper Money conducts stress scenario testing on its portfolio on a regular basis, using combinations of possible and plausible macroeconomic conditions, to better understand the potential impacts on both customer and Pepper Money. • Pepper Money enters into interest rate swap contracts to offset the variability in cash flows from changing interest rates.
Labour market risk: Under tight labour market conditions, Pepper Money faces a risk that it cannot recruit, develop and retain the people needed to execute on the Company's strategy and to ensure the efficient day to day running of the business.	• 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 supports employees through a range of policies including but not limited to remuneration in line with FIRG's[21] 50th percentile for similar size organisations, reward and recognition programs and Health & Wellness programs.[22] • Pepper Money supports employees in enhancing their skill set through investment in learning, development and personal growth. • Pepper Money has had flexible work arrangements in place for employees since c. 2015 and has continued to enhance options for employees as a result of changes in the workplace and ways of working. Pepper Money's move to a hybrid model of working allows employees to work from different locations in order to support a more productive and balanced way of working.

6.2.2 Non-Financial Risks

KEY RISK	HOW PEPPER MONEY RESPONDS
Environmental, Social and Governance (ESG) risk: is the risk of failure to appropriately identify and manage material environmental, social and governance risks and opportunities. ESG Risk is an area that is continually evolving, with regulatory, compliance and reporting obligations for companies expected to be ratified over the short to medium term.	• Pepper Money manages ESG risk through its Sustainability Framework, which seeks to create the structure, processes and policies for the identification of ESG risks and how the Company manages, within agreed base measures. • Pepper Money's Sustainability Framework is evolving as ESG regulatory, compliance and reporting obligations evolve, to ensure Pepper Money meets emerging ESG compliance requirements, as well as develops greater rigor in the Company's ESG reporting to market.

21. FIRG: Finance Industry Remuneration Group.
22. Health and Wellness programs includes gym membership, mental health support and education, and full access to Employee Assistance Program (EAP).

KEY RISK	HOW PEPPER MONEY RESPONDS
Cyber risk: Pepper Money is dependent on the operation of its technology platforms to accurately assess customers, provide reliable services and accurate and timely reporting. There has been an observable increase in high profile cyber-attacks on companies in Australia and globally. Any disruption to Pepper Money's technology platform through direct cyber-attacks or attacks to our systems managed by suppliers can result in serious disruption to critical business functions, create material data protection issues, and could adversely affect Pepper Money's business, operations or financial performance. Pepper Money continuously invests to protect our systems, minimise disruption and to ensure data protection for all stakeholders.	• Recognising the size and complexity of the threat, Pepper Money has a dedicated team to operate and continue to improve the maturity of its cyber security control framework. • Pepper Money has a framework of standards, policies and systems to address cyber, privacy and data governance risks. This framework is reviewed at regular intervals to ensure they support the Company's ability to respond to the changing cyber threat environment. • Pepper Money maintains a 24 x 7 security threat monitoring service and third party security operations centre that identifies potential breaches and responds during the early stages of any attack to minimise impact on the business, customer and partners. • Pepper Money maintains, and regularly tests cyber security and disaster recovery procedures across critical systems, including company-wide security and cyber security awareness and education for all employees. • Pepper Money maintains a compliance program which includes periodic audits of the Company's cyber security program, including ISO 27001 recertification and assurance testing.
Data risk: Pepper Money is dependent on the operation of its technology platforms to accurately assess customers, provide reliable services and accurate and timely reporting for its customers and other stakeholders.	• Pepper Money maintains strong data governance and controls through maintaining an enterprise-wide Data Governance Framework that supports the business in protecting its data, and customer data, to ensure adherence to privacy laws. • Data is utilised by Pepper Money to appropriately evaluate the credit risk of a potential customer as well as monitor and report on the performance of its portfolio. • Structured systems user access management is used in combination with data loss prevention mechanisms and a series of other cyber protection mechanisms to further protect Pepper Money from inadvertent or intentional data exfiltration.
Technology risk: 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 and where 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.	• Pepper Money has designed and implemented resilience programs and modern systems and processes to enhance the reliability of its platform. This includes increasing the scale and capability of its shared service operations in the Philippines, to enhance flexibility to work across multiple locations in any event of disruption in one workplace. • Pepper Money maintains disaster recovery and business continuity plans, which are reviewed bi-annually and tested annually. Tests of critical systems take place annually to ensure technical configuration for disaster recovery is compliant with these policies and standards. • Where Pepper Money depends on third parties to provide technology services, solutions and (cloud) platforms, regular vendor management and governance activities assure that these providers are delivering services in a manner compliant with standards and policies. • Pepper Money is ISO-27001 compliant.

KEY RISK	HOW PEPPER MONEY RESPONDS
Regulatory and Compliance risk: Pepper Money 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 the Group's operations), Pepper Money 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. Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation that Pepper Money may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice relevant to the entity.	• Pepper Money's objective is to manage regulatory and compliance risk such that Pepper Money is compliant with all applicable laws, regulations, codes of conduct and standards of good practice, and manage operational risk so as to balance the avoidance of financial loss and damage to the Company's reputation, against excessive cost and control procedures that restrict initiative and creativity. • Regulatory Compliance Risk is a subset of Operational Risk and managed with policies, processes and practices aligned to the Risk Management Framework. • The Company's Compliance function, in conjunction with Pepper Money's Legal team, provides independent advice, oversight and challenge on regulatory compliance as well as providing advice to individual business divisions to assist with the implementation of regulatory change.
Operational risks are the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes risks such as data, IT, security, outsourcing and legal.	• Pepper Money has specific capabilities, policies and procedures to manage and monitor operational risks. These include, but are not limited to, processes for customer identification, credit assessment, internal and external fraud monitoring and frameworks. • Pepper Money maintains disaster recovery and business continuity plans, which are reviewed bi-annually and tested annually. Tests of critical systems take place annually to ensure technical configuration for disaster recovery is compliant with these policies and standards. • Pepper Money maintains, and regularly tests, cyber security procedures across critical systems, including Company-wide security and cyber security awareness and education for all employees.
Conduct Risk is the risk of delivering unfair outcomes for Pepper Money's customers, partners, investors, employees and communities in which we operate from inappropriate, unethical, or unlawful behaviour, action or omission by Management or employees which may be deliberate or inadvertent. Poor conduct is a cause of Operational Risk. Pepper Money can be exposed to both intentional and unintentional misconduct risks.	• Pepper Money manages Conduct Risk through its policies, processes and practices which are aligned to the Risk Management Framework. • Pepper Money's Code of Conduct supports the Company's values and culture and seeks to minimise Conduct Risk.

6.2.3 Emerging Risks

Pepper Money conducts a formal process for the identification, consideration and assessment of emerging risks and their integration into the Risk Management Framework.

7. Sustainability

Pepper Money defines sustainability as the strategies and activities the Company has adopted in relation to its customers, employees, the environment, ethics, and the community. Pepper Money's approach to sustainability aligns with our mission to 'help people succeed' by meeting their financial needs, through our focus on providing innovative home loan and asset finance solutions to customers who are being underserved by traditional lenders.

Pepper Money strives to have a positive impact for our customers, shareholders, employees, the communities in which we operate, and the environment. Our approach to sustainability is closely linked to our strategy and purpose. Pepper Money recognises that embedding good corporate governance and lending responsibly are fundamental to our ability to manage sustainability risks and opportunities in our operating environment is critical to the achievement of our strategy and purpose.

7.1 Sustainability Framework

Pepper Money's approach to sustainability aligns with our mission. We are focused on creating financial inclusion, by challenging the way loans are designed and distributed. Our values provide the guide to how we do business and how we interact with our all stakeholders. Our approach is guided by our ESG **focus areas** that are closely linked to our strategy, mission and purpose, and we recognise that our ability to manage ESG risks and opportunities in our operating environment is critical to the achievement of our strategy and purpose.

People

We are committed to fostering an environment that supports a safe, healthy, diverse and inclusive workplace where talent thrives.

Communities

We partner with community-based organisations that share our values of diversity and inclusion and that make a difference in areas of the community.

Economic Performance

We are committed to responsible business practices. Our system of governance fosters a culture of accountability and creates sustainable long term value for our investors and capital partners.

Environment

We recognise the importance of how making positive changes in how we run the business can reduce our impact on the environment.

In CY2021/22 Pepper Money undertook an initial materiality assessment to identify the focus areas where we can have the most meaningful positive impact for our stakeholders. In accordance with the Global Reporting Initiative (GRI)[23], Pepper Money engaged with internal and external stakeholders to inform our identification of Environment, Social and Governance (ESG) opportunities and risks that have the most potential to impact our ability to create sustainable value for shareholders and other stakeholders. Strategic risks covered above were considered alongside regulatory developments, peer reviews and industry trends.

FOCUS AREAS	E/S/G	DEFINITION
Customer Wellbeing	S G	We are focused on doing the right thing for our customers, providing innovative and affordable lending solutions that meet their financial needs and reflect responsible lending principles. Our policies and procedures are designed so that customers understand their lending commitments, understand our decisions and pricing, and have access to the right resources and support when they need it.
Responsible Business	G	We are committed to responsible business practices. Our system of governance is designed to foster a culture that values accountability, ethical behaviour and protects our stakeholders' interests at all times. Our code of conduct and our values set the standard of how we do business and interact with our stakeholders.
Climate Risks and Opportunities	E	We recognise the importance of how making positive changes in how we run the business can reduce our impact on the environment. We are committed to assisting our customers reduce theirs by providing finance for the construction of, modification to, or purchase of more energy efficient homes, and clean transportation.
Employee Engagement and Inclusion	S	We recognise the positive outcomes and better overall performance that can be achieved via an engaged and diverse workforce. We are committed to fostering an environment that supports diversity and inclusion whilst maintaining a commitment to high performance culture.
Community Contribution and Investment	S	Aligned with our purpose to help people succeed, Pepper Money recognises the importance of supporting and building resilient communities. We partner with community-based organisations that share our values of diversity and inclusion and that make a difference in areas of the community that are under-served by traditional support structure.

Pepper Money's Sustainability Framework is adapting as ESG regulatory, compliance and reporting obligations evolve, to ensure Pepper Money meets emerging ESG compliance requirements, as well as develops greater rigor in the Company's ESG reporting to market.

Pepper Money's Sustainability Framework can be found at:
www.peppermoney.com.au/about/corporate-governance

23. Global Reporting Initiative (GRI) Standard 3 – Guidance on how to determine material topics to report.

7.2 CY2022 Initiatives

Over CY2022 the following initiatives, in support of our people, communities, the environment and our economic performance were carried out:

Our People

We are committed to fostering an environment that supports a safe, healthy, diverse and inclusive workplace where talent thrives.

Engagement: Overall engagement score of **78[24]+**, placing Pepper Money in the top 10% of high performing companies globally.

Diversity: Our diversity, equity and inclusion strategy is underpinned by our guiding principles of **Allyship, Celebrate and Educate (ACE).**

- Our team is 55% female, 45% male
- 41% of our Senior Leaders are female

Inclusion: Our commitment to promoting an inclusive workplace is demonstrated through feedback from employees in the CY2022 annual Employee Engagement survey.

- Fairness: *"Everybody is treated fairly at Pepper"* – 87th percentile
- Personal Expression: *"People with different ideas are valued at Pepper"* – 86th percentile
- Trust: *"There is an atmosphere of trust at Pepper"* – 93rd percentile

Initiatives that supported our CY2022 strategy include:

- **Investment in our people** through performance management, engagement surveys, annual pay parity reviews, leadership development, and access to other development opportunities through our partnerships with Women in Business and Finance (WIBF) and the Diversity Council Australia.
- **Wellness:** Pepper Money is committed to promoting and maintaining a safe, positive and inclusive culture that supports our employees to succeed. Our CY2022 wellbeing program was focused on increasing the proactive management of mental health, raising awareness, education, and encouraging open conversations, and included:
  - Mental Health first aid program rolled out, with employees from across the business trained to act as first point of contact for employees experiencing mental health challenges.
  - Mental health training for managers to identify and respond to someone within their team who may have mental health challenges.
  - Continue to promote our Employee Assistance Program.
  - All employees were provided the opportunity to participate in Mental health awareness training for R U OK? Day.

24. Pepper Money Limited CY2022 Employee Engagement Survey conducted by Custom Insights, 5 September – 16 September 2022. Results for Australia and New Zealand. Pepper Manila Employee engagement under the same survey saw response rate more than 90 and a score of 81.

Our Community

We partner with community-based organisations that share our values of diversity and inclusion and that make a difference in areas of the community.

Pepper Giving: is the program that brings to life the Company's community and charitable initiatives. The program is run by a group of passionate employees who volunteer their time to form the Pepper Giving Committee. The Committee is governed by the Pepper Giving policy framework. Pepper Giving is made up of two programs: **Big G** – is the program that sees Pepper Money partner with a charitable organisation to provide support and funding via a large donation, and **Small G** – the program where employees can apply for a financial contribution to a charity or cause that is important to them. Through Pepper Giving the following support paid to our communities and organisations over CY2022.

Pepper Giving Support	$'000
Domestic violence and child protection	$81.5
Youth support and education	$50.0
Medical support and mental health	$67.0
Housing and welfare	$8.8
Other Small G	$3.0
Total	**$210.3**

Pepper 'Shout Out': All over Australia, acts of decency and kindness – small and large – are helping others to succeed in tough times. Pepper Money wanted to recognise the thoughtful, generous Australians who help others, in a way that is designed to connect to our communities, so created the **Shout Out** campaign to help further the efforts of people making a real-life difference to others across Australia. Over 300 nominations were received and in total 58 awards were given out in CY2022, for people nominated by others in their community. Each award that Pepper Money gave was thoughtfully designed to meet the needs of the person and their situation, by identifying opportunities to extend the work being done, and recognise the person by doing something special that is uniquely suited to them. Refer https://shoutout.pepper.com.au/home.

The Environment

We recognise the importance of how making positive changes in how we run the business can reduce our impact on the environment.

Electric Vehicle: Pepper Money's commitment to the environment continues to be demonstrated through our leading position in Electric Vehicle (EV) lending. This was recognised by Canstar, with the business awarded the Inaugural Green Excellence Award for our Electric Vehicle loan program. To better support our customers to make the transition to Electric Vehicles, we partnered with Evie Networks to make EVs more affordable by providing them with complementary access to Evie's public fast charging network for up to 12 months (or 2,000 kWh).

Green Bond: Pepper Money is actively assisting customers to achieve a lower carbon footprint through the construction and purchase of more energy efficient and low carbon homes, funded via accredited 'Green Bonds'. Pepper Money's Green Bond framework is based on the *International Capital Market Associations' Green Bond Principles (GBP).* In CY2022 Pepper Money issued its second Green Bond for $330 million.

The Company's Green Bond Framework is subject to a second party opinion by *Sustainalytics* and an annual review is undertaken. Since the introduction of program in 2018 to early 2022, Pepper Money has assisted families by funding properties that have saved 28.4% in CO_2 emissions.

Please refer to: **www.peppermoney.com.au/about/debt-investors** for Pepper Money's Green Bond Framework; the second-part opinion by Sustainalytics on Pepper Money's Green Bond Second-Party Opinion as well as Pepper Money's last Green Bond Annual Review.

The Environment

continued

A healthier planet: For Pepper Money's 21st birthday in CY2021, we committed to a program that supports the future of our local communities and their environment. Working with on the ground experts in Australia, New Zealand, and the Philippines Pepper Money embarked on a program to plant 21 trees for each Pepper Money employee.

Since mid-2021, Pepper Money has commissioned 7 hectares of forest - a total of approximately 16,300 trees. The trees planted are from wild seeds harvested from the local environment, to ensure they are compatible with conditions, all grown to a size that optimises their ability to thrive when planted.

In the Philippines 2,500 trees have been planted with the seedlings coming from community-based nurseries, which in turn is supporting community livelihood incentives.

In New Zealand, our two-hectare forest programme has seen 2,050 trees planted to date, with a further, and final, 750 seedling trees for CY2023 commissioned and currently growing in the local nursery for autumn planting.

In Australia, four hectares of forest, with between 2,000 and 5,000 stems in each hectare, or around 10,000 seedlings have been planted. All forests are on covenanted land, protected for 100 years.

Our final nursery project is for indigenous trees in Newcastle, NSW, which will ultimately see about 1,000 additional seedlings delivered. The native seedlings will be supplied to landholders and local community groups to plant in bushfire affected areas for regeneration.

By planting the equivalent of seven rugby fields with native trees and seedlings, this initiative is our way to contribute to a healthier planet and provide a successful future for everyone.

Our Economic Performance

We are committed to responsible business practices. Our system of governance fosters a culture of accountability and creates sustainable long-term value for our investors and capital partners.

Social Bond: Pepper Money has developed a Social Bond Framework to issue Social Bonds. This Framework is aligned to the *International Capital Market Associations' Social Bond Principles (SBP)*. Pepper Money undertook its first Social Bond for $300 million 1 June 2022 – reinforcing one of the fundamental principles of our business, which is to drive financial inclusion through innovation and to seek to lead the industry in making a positive contribution to society.

Pepper Money Social Bond Framework has been subject to a second party opinion by *ISS ESG* and is subject to an annual review.

Please refer to: **www.peppermoney.com.au/about/debt-investors** for the Company's Social Bond Framework and the second party opinion by ISS. The first annual review will be undertaken following the first anniversary.

8. Outlook

It is expected that CY2023 will continue to see further interest rate rises, particularly in the first half of the year, as the RBA seeks to stabilise, and then start the path to reducing high inflation rates. Capital market volatility is also expected to continue in the short term.

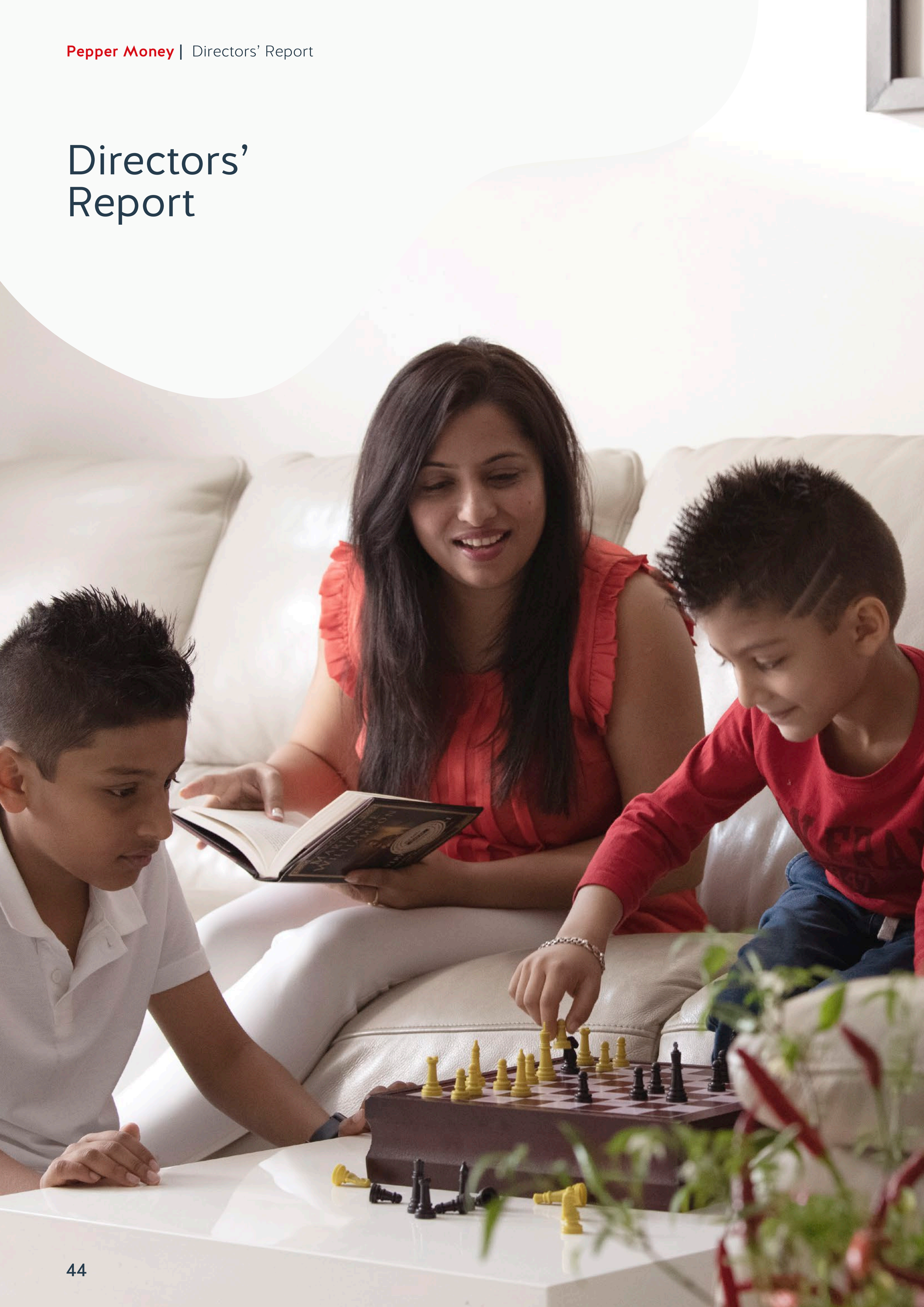
In CY2022 Pepper Money chose to increase the weight of the 'downside' case of macro-economic variables that drive credit modelling. This was thought to be prudent given the likelihood that the 8 consecutive interest rate rises by the RBA from May to December (with further expected in Q1 CY2023) are yet to be fully reflected in consumer behaviour.

Looking ahead to CY2023, Pepper Money's growth strategy, and medium-term growth outlook, continues to be structured around building sustainable AUM at an acceptable risk-adjusted return. While the start of CY2023 has seen a continuation of the challenges of 2H CY2022, Pepper Money has a 22+ year history of adapting to and growing through all cycles. The strategy continues to be supported by the following:

Ability to identify opportunities to grow organically in large addressable markets	• **Ability to identify underserved segments:** Pepper Money operates in a large total addressable market of $2+ trillion. Within these large total addressable markets, Pepper Money has established a history of focusing on **underserved market segments** and proven track record on delivering product innovation to capitalise on **product niches**, where Pepper Money delivers value for customers and generates an appropriate risk-adjusted return for its business.
Agility to respond to market conditions	• **Portfolio balance:** Pepper Money has the demonstrated ability to balance growth between its scaled Asset Finance business – with AUM[25] of $4.7 billion – and Mortgages – with AUM of $13.5 billion. • **Strength of product range:** Pepper Money has the demonstrated ability to balance returns between growing volume, through Prime Mortgages/Asset Finance Tier A, or supporting margin, through its strong market position in Non-Conforming Mortgages. • **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 22+ years of experience and pricing for risk.
Scalable platform supporting efficient growth	• **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. • **Purpose built technology platform:** providing flexibility to efficiently respond to increased (and decreased) demand to drive performance across the business.
Adapting to industry trends	• **Increased openness to non-bank lenders:** customers are increasingly open to alternative sources of finance and exploring new channels to acquire financial products. • **Opportunity to educate the market on product alternatives:** the Non-Conforming market remains significantly under-penetrated, with a large portion of eligible Non-Conforming customers not obtaining a loan given lack of awareness of alternative solutions.
M&A and strategic partnership	• **Organic growth remains the key focus**, however, Pepper Money also considers the option to pursue growth through acquisitions or strategic partnerships where there is an opportunity to leverage Pepper Money's platform or capabilities, drive operational efficiency and scale or enter new products and markets.

25. Closing AUM as at 31 December 2022.

Directors' Report



The Directors of Pepper Money Limited ('Pepper Money' or the 'Company') present their report, together with the financial statements of Pepper Money Limited and its controlled entities ('the Group') for the year ended 31 December 2022 ('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:

Board of Directors

The profiles of the Directors' have been included on pages 6–7.

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

Michael Culhane

Chair and Shareholder Representative

Mario Rehayem

Chief Executive Officer

Des O'Shea

Non-Executive Director and Shareholder Representative

Mike Cutter

Independent Non-Executive Director

Akiko Jackson

Independent Non-Executive Director

Justine Turnbull

Independent Non-Executive Director

Rob Verlander

Independent Non-Executive Director

Directors' meetings

The number of Directors' meetings (excluding circulatory resolutions) held during the year and each Director's attendance at those meetings is set out in the table below:

Director	Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
Michael Culhane	10	10	6	6	4	4
Mario Rehayem[1]	10	10	X	X	X	X
Des O'Shea	10	10	6	6	4	4
Mike Cutter[2]	10	10	6	6	X	X
Akiko Jackson	10	10	6	6	4	4
Justine Turnbull[3]	10	10	X	X	4	4
Rob Verlander	10	10	6	6	4	4

A: The number of meetings held during the time the Director held office or was a member of the Committee during the year.

B: Number of meetings attended.

X: Not a member of the Committee.

1. Mario Rehayem as Chief Executive Officers attends the Audit and Risk and Remuneration and Nomination Committee at the invitation of those Committees.
2. Mike Cutter attends the Remuneration and Nomination Committee at the invitation of that Committee.
3. Justine Turnbull attends the Audit and Risk Committee at the invitation of that Committee.

Director's interests

Refer to the Remuneration Report for details of each Director's relevant interests in the shares and rights of the Group at 31 December 2022.

Company Secretary

John Williams.

Key Management Personnel

Remuneration information of the Key Management Personnel ('KMP') of the Company during or since the end of the year-ended 31 December 2022 is detailed in the Remuneration Report section of this Directors' Report.

The term KMP refers to those individuals having authority and responsibility for planning, directing and controlling the activities of the Group, including any Director of the Group (executive or otherwise).

Remuneration Report

The Remuneration Report can be found from pages 50–81 and forms part of the CY2022 Directors' Report.

Principal Activities

Pepper Money is one of the largest non-bank lenders in the Australian mortgage and asset finance markets. Pepper Money commenced business in Australia in 2001 as a provider of home loans to consumers who fall just outside the lending criteria of traditional bank and non-bank lenders, otherwise known in Australia as the non-conforming or specialist mortgage market. Pepper Money has subsequently broadened its Australian business activities to also include the origination of prime residential mortgages, commercial real estate loans, auto and equipment finance, third party loan servicing and broker servicing. Pepper Money has also expanded into the origination of residential mortgages in New Zealand.

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.

Presentation of financial information

Results and key financial drivers of the current and prior periods are set out below in the Directors Report and are on a Pro-forma basis, reflecting the one-off adjustments incurred in the period as a result of the acquisition of Stratton Finance Pty Ltd, completed 1 July 2022, and the Initial Public Offer ('IPO'), completed 25 May 2021 (prior comparable period).

Dividends

The Board of Pepper Money declared a fully franked final dividend of 5.1 cents per share on 23 February 2023.

The final dividend represents a payout ratio of 32.50% of the Pro-forma NPAT from the period 1 July 2022 to 31 December 2022, and is consistent with the payout ratio of 30 – 40% set under the Board Dividend Policy[4].

The Record Date is 14 March 2023. The payment date will be 14 April 2023.

The Dividend has not been provided for in the financial report.

Further details on the Dividend are provided in Note 4H of the Consolidated Financial Statements.

Operating and Financial Review

The Operating and Financial Review can be found from page 16.

Governance and Risk

The Directors have 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 agreed level of risk. The Company's Governance and Risk frameworks are detailed in Section 6 of the Operational and Financial review.

Pepper Money's Corporate Governance Statement can be found at:
www.peppermoney.com.au/about/corporate-governance.

Sustainability Framework

The Group conducts business in a way that seeks to support a sustainable environment. Pepper Money is setting transparent environment, social and governance performance reporting and targets as part of its sustainability commitment. The Company's CY2022 initiatives to reduce environmental impact and support social responsibilities are covered in Section 7 of the Operational and Financial Review.

Pepper Money's Sustainability Framework can be found at **www.peppermoney.com.au/about/corporate-governance**.

Environmental regulation

The Group is not affected by any significant environmental regulation in respect of its operations.

Auditor independence

The Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 83 and forms part of this report.

4. As per Pepper Money Limited Prospectus – Initial Public Offering of Ordinary Shares. Section 4.10 page 181.

Non-audit services

Deloitte Touche Tohmatsu are the Auditors of the consolidated entity and continue in office in accordance with section 327 of the *Corporations Act 2001*.

During the year, fees were paid or payable for non-audit services provided by the auditor of the consolidated entity, its related practices and non-related audit firms.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditors; and
- none of the services undermine the general principles as set out in APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Details of the audit and non-audit fees paid or payable for services provided by the auditors are detailed in Note 16 to the Financial Report.

Insurance of officers and indemnities

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all executive officers of the Company against a liability incurred as such a Director, Secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Events since the end of the period

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.

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 full-year Financial Report have been rounded off in accordance with the instrument to the nearest million dollars.

Significant changes in the state of affairs

In the opinion of the Directors, there have been no significant changes in the state of affairs of the Company during the year, except as otherwise noted in this report.

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

23 February 2023

Remuneration Report

The Remuneration Report for the year ended 31 December 2022 forms part of the Directors' Report. It has been prepared in accordance with the *Corporations Act 2001 (Cth)* (**the Act**), the *Corporations Regulations 2001* (Cth) and AASB124 *Related Party Disclosures*, and has been audited as required by the Act. It also includes additional information and disclosures that are intended to enable a deeper understanding by shareholders of Pepper Money's remuneration governance and practices.

Report structure

The report is divided into the following sections:

Definitions

The following definitions apply to the terms used in the report are below. Please refer pages 160 to 162 for overall glossary of terms and definitions:

Term	Meaning
Equity	means a financial instrument linked to Pepper Money Limited Shares, including Shares, rights, options or derivatives for example.
Fixed Pay	means the sum of fixed aspects of remuneration including base salary, allowances, benefits, FBT and superannuation to the extent they may be applicable.
Exercise Restriction	means a period during which a Participant may not exercise vested Rights.
iTSR	means Indexed TSR which is a form of relative TSR.
LTVR	means Long Term Variable Remuneration.
Percentile (e.g. P50 or P62.5)	means the point in a ranked data set below which the specified percentage of data points lie e.g. 62.5% of ranked data points lie below P62.5.
STVR	means Short Term Variable Remuneration.
TSR	means Total Shareholder Return, being the sum of change in share price plus dividends assumed to be reinvested.
Variable Remuneration	means remuneration that is subject to the fulfilment of conditions.

1. Letter from the Chair of the Remuneration and Nomination Committee

Dear Shareholders,

On behalf of the Board, I am pleased to introduce Pepper Money Limited's Remuneration Report for the year ended 31 December 2022.

The Remuneration and Nomination Committee continued its focus on reward outcomes that reflect Pepper Money's performance, business strategy and the interests of shareholders.

Over CY2022, the Pepper Money team has continued their outstanding efforts to support our customers, partners and the communities in which we operate. Pepper Money continues to show its ability to adapt to challenging market conditions, and to deliver on its mission to **'help people succeed'** through its focus on financial inclusion.

CY2022 reward outcomes reflect the business performance and align with our Remuneration Framework

Pepper's Remuneration Framework is underpinned by market driven competitive fixed pay, a balanced scorecard for short-term variable remuneration (STVR) and long-term variable remuneration (LTVR) that aligns with the value creation for shareholders.

After a record year in CY2021, Pepper Money has delivered solid financial results in CY2022. The Board, through its Remuneration and Nomination Committee, has assessed CY2022 performance against the short and long term financial and non-financial performance indicators as set out in Sections 3.2 and 5.1 of this report, which have been selected with a clear expectation to deliver shareholder returns over the medium to longer term.

According to the assessment as set out in Section 5.1, the STVR outcome for the Chief Executive Officer was 96.8% of target and the STVR outcome for the Chief Financial Officer was 110.7% of target. The measurement period for LTVR grants is yet to be completed, as such no vesting has yet occurred.

Given the challenging market, unfortunately the IPO grant offered to key Executives and Senior Employees at the time of listing in May 2021 lapsed. This was because the performance measure requiring the share price to be above the listing price of $2.89 on 31 December 2022, was not met.

Culture, Diversity and Inclusion (D&I)

High performing organisations achieve success by having a clearly defined strategy, strong leaders and engaged employees who are motivated to perform at their best.

Pepper Money's strong performance is delivered by a highly engaged workforce as demonstrated by the exceptional achievement of an engagement score of 78 for Australia and New Zealand and 81 for our operations in Manila. Scores greater than 50 indicate that there are more engaged employees than disengaged, and with only 10% of organisations globally scoring above 70, our engagement levels continue to place Pepper in the top 10 percent of highly engaged companies in CY2022[1].

Pepper Money's genuine commitment to supporting D&I underpins our culture. Employees are empowered through respect and appreciation to embrace what makes them different. With more than 1,000 employees across Australia, New Zealand and the Philippines, we have a highly diverse workforce including a gender split of 55% women and 45% men, with 41% of Senior Manager roles held by women, Pepper has one of the highest representations of women at this level in the Australian non-bank sector[2].

Pepper Money's D&I strategy is underpinned by the guiding principles of 'ACE' which stands for Allyship, Celebrate, & Educate. They are a fundamental part of Pepper Money's employer brand. Allyship is about building supportive relationships, celebrating differences and bridging the gap in knowledge through education.

Pepper works closely with key partners including St Kilda AFL Club and the Women and Girls Emergency Centre (WAGEC), to drive support for their D&I community programs and encourage third-party suppliers and vendors to commit to the alignment of Pepper Money's values and principles.

1. Data source: 2022 Engagement Survey facilitated by Custom Insight www.custominsight.com.au.
2. Workplace Gender Equality Agency (WGEA) - www.wgea.gov.au/data-statistics. Australia's Gender Equality Scorecard 2021-2022- Key results from the Workplace Gender Equality Agency's Employer Census 2021-22.

Looking ahead

The Board is comfortable that the remuneration outcomes for CY2022 are appropriate given the context and outcomes for the year, and we look forward to continued progress against our business strategy and priorities that will deliver value to shareholders.

We invite shareholders to join our remuneration journey and provide constructive feedback on, and support for, the Remuneration Report.

Justine Turnbull

Chair, Remuneration and Nomination Committee

2. People covered by this report

This report covers Key Management Personnel (**KMP**) who are defined as those who have the authority and responsibility for planning, directing and controlling the activities of Pepper Money Limited.

Table 1: Committee matrix

			Committee membership	
Name	**Role at Year-End**	**KMP in CY2022**	**Audit and Risk**	**Remuneration and Nomination**
Non-Executive KMP				
Michael Culhane	Non-Executive Chairman and Shareholder Representative	Full year	✓	✓
Des O'Shea	Non-Executive Director and Shareholder Representative	Full year	✓	✓
Mike Cutter	Independent Non-Executive Director	Full year	**C**	*
Akiko Jackson	Independent Non-Executive Director	Full year	✓	✓
Justine Turnbull	Independent Non-Executive Director	Full year	*	**C**
Rob Verlander	Independent Non-Executive Director	Full year	✓	✓
Executive KMP				
Mario Rehayem	Chief Executive Officer	Full year	n/a	n/a
Therese McGrath	Chief Financial Officer	Full year	n/a	n/a

✓ = Member, **C** = Chair, * = Is not a member but has a standing invitation to attend committee meetings

3. Remuneration Overview

3.1 Executive Remuneration Structure at-a-glance

During CY2022, remuneration structures were consistent with those that were in place in CY2021. However, refinements to the CY2022 LTVR Return on equity (ROE) vesting conditions for new grants (i.e. not retrospective changes) were made as follows:

- the threshold and stretch targets were increased by 1% from CY2021; and
- the vesting scale was adjusted from static to pro-rata vesting for achievement from threshold to target and from target to stretch.

We consider the changes made improve alignment with external stakeholder expectations and are also fair and reasonable to participants.

The following diagram outlines Pepper Money's approach to Executive remuneration:

Chart A: Remuneration Framework

Pepper Money Remuneration Framework Overview

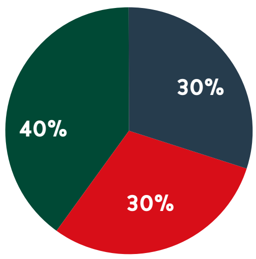
	Fixed Pay	Variable Remuneration	
		Variable Remuneration is not intended to be a 'bonus', but a blend of at-risk remuneration (below Target) and incentives (above Target and up to Stretch/Maximum).	
		Short Term Variable Remuneration	**Long Term Variable Remuneration**
Purpose	To pay fairly (around P50) for meeting the basic requirements of a role that are not the subject of performance assessment.	To reward for short term execution of the long term strategy and value creation within 1 year.	To reward for execution of the long term strategy and value creation within 3 years.
Delivery	Base Salary, superannuation and other benefits.	65% delivered in cash 35% delivered in Restricted Rights subject to deferral for 2 years	Performance Rights to receive Pepper Money shares, subject to LTVR performance over a 3-year measurement period.
CY2022 Approach	Benchmarking against a balance group of the relevant market comparators.	See Short Term Variable Remuneration below	See Long Term Variable Remuneration below

CY2022 Approach – Short Term Variable Remuneration

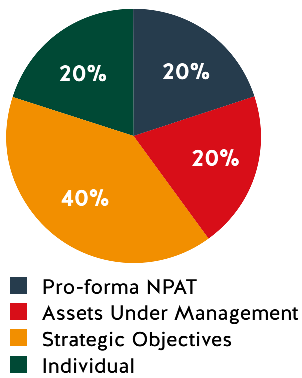
Opportunity as % of Fixed Pay

	Target	Stretch
CEO	70%	105%
CFO	40%	60%

CEO



CFO



Gate:
Participants risk scorecard must be at least 'Meets Expectations' and at least 85% of budgeted NPAT must be achieved, otherwise STVR will not be awarded.

CY2022 Approach – Long Term Variable Remuneration

Opportunity as % of Fixed Pay

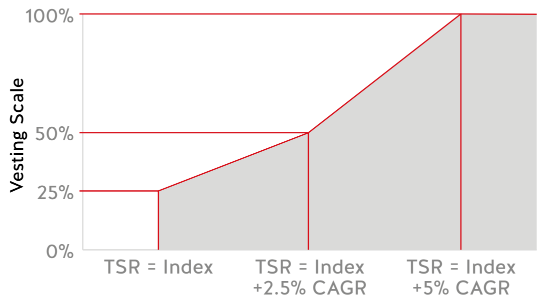
	Target	Stretch
CEO	80%	160%
CFO	40%	80%

LTVR Performance Measures:

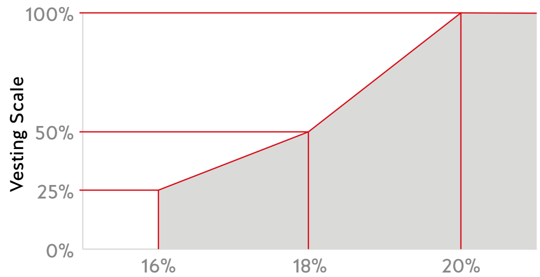
- 50% Indexed TSR
- 50% Return on Equity

Vesting Scales:

Index TSR



Return on Equity



Gate:

- **Positive TSR:** applies to iTSR tranche only
- **Risk Scorecard:** applies to both tranches

If the Gates are not met, nil vesting occurs for the respective tranche.

Malus and Clawback

If a participant has committed an act of fraud, defalcation or gross misconduct, the participant will forfeit all unpaid variable remuneration opportunities (i.e. unpaid STVR and LTVR).

The Company's Clawback policy allows for the Board to clawback deferred STVR for events such as, but not limited to, a material misstatement in the Company's financial reports.

Chart B: Remuneration timeline

	Remuneration Framework Timeline CY2022			
Element	**CY2022**	**CY2023**	**CY2024**	**CY2025**
Fixed Pay	Fixed Pay			
CY2022 Short Term Variable Remuneration (STVR)	STVR Measurement Period	Audit Results, Gate Check		
		65% Cash Award		
		35% Restricted Rights		
		Restricted Rights Exercise Restriction		
CY2022 Long Term Variable Remuneration (LTVR)	Tranche 1 Performance Rights Measurement Period – iTSR (50%)			Audit Results, Gate Check and Vesting Determination
	Tranche 2 Performance Rights Measurement Period – ROE (50%)			

The same STVR and LTVR structure is expected to apply in CY2023.

3.2 CY2022 Company performance at-a-glance

The following outlines Pepper Money's performance in CY2022, which is intended to assist in demonstrating the link between performance, value creation for shareholders, and executive reward:

Table 2: Statutory performance disclosure

CY End Date	Pro-forma NPAT ($M)	Statutory NPAT ($M)	Share Price (beginning of period)	Share Price (end of period)	Change in Share Price	Dividends (paid during period)	Change in Shareholder Wealth (SP Change + Dividends)
31 December 2022	$142.0	$140.5	$2.16	$1.42	-$0.74	0.105	-$0.635
31 December 2021	$141.9	$130.7	$2.61	$2.16	-$0.45	0.09	-$0.360

As Pepper Money listed in May 2021 metrics are not available for the calendar years prior to CY2021.

Table 3: Remuneration linked performance indicators[3]

Remuneration Link	Metric	Rationale for Metric Use	CY2022 Outcome	Outcome Quality
CY2022 STVR	Group Pro-forma NPAT ($m)	Pro-forma NPAT is the primary measure of financial performance typically focussed on by shareholders, and drives share price.	$142.0	Above Threshold
	Assets Under Management ($bn)	AUM is the primary lead indicator of business growth under the strategy, and is a key focus of the strategy.	$19.2	Approaching Target
	Stategic Role Metrics	Executives need to regularly deliver step changes linked to the long term strategy, on an annual basis, in order to deliver it.	Mixed	Mixed
	Individual Performance	Individual performance reward is essential to ensuring a motiviational impact; it captures value contributions not otherwise measured.	Mixed	Mixed
	Risk (Gate)	Profit must be managed within risk tolerances to support sustainable performance, otherwise no rewards should arise.	Meets Expectation	Gate Exceeded
	Profit (Gate) ($m)	If profit generated is insufficient, rewards become unaffordable and should not be paid.	$142.0	Gate Exceeded
CY2022 LTVR	Indexed TSR/ iTSR	TSR creates direct shareholder alignment. When no large peer group can be identified, TSR vs Index is the best form of relative TSR.	(28.3%)	Below Threshold
	Return on Equity	When ROE exceeds the cost of equity, economic wealth is created, which links directly to TSR and sustainable value creation.	19.7%	Approaching Stretch
	Positive TSR (Gate)	When TSR is negative, shareholders are losing wealth, and executives should not be rewarded.	(28.3%)	Gate Not Met
	Risk (Gate)	TSR and ROE need to be managed within risk tolerances to support sustainable performance, otherwise no reward should arise.	Meets Expectation	Gate Exceeded

3. The commentary relates to the outcome from the start of the Measurement Period to the end of CY2022. In the case of the LTVR, this relates to the first one or two years of the 3-year Measurement Period, which is incomplete (no vesting will occur until after CY2023). For the IPO grant, the award lapsed. These metrics are assessed separately for the CEO and the CFO. For details, please refer to Table 8a and Table 8b on pages 71 and 72 of Section 5.1.

Remuneration Link	Metric	Rationale for Metric Use	CY2022 Outcome	Outcome Quality
CY2021 LTVR	Indexed TSR/ iTSR	TSR creates direct shareholder alignment. When no large peer group can be identified, TSR vs Index is the best form of relative TSR.	(27.8%)	Below Threshold
	Return on Equity	When ROE exceeds the cost of equity, economic wealth is created, which links directly to TSR and sustainable value creation.	22.3%	Above Stretch
	Positive TSR (Gate)	When TSR is negative, shareholders are losing wealth, and executives should not be rewarded.	(27.8%)	Gate Not Met
	Risk (Gate)	TSR and ROE need to be managed within risk tolerances to support sustainable performance, otherwise no reward should arise.	Meets Expectation	Gate Exceeded
IPO Equity	Service	In a period when LTVR is not expected to vest for a long period (first grant) retention becomes a key risk to delivery of IPO forecasts.	Completed	At Target
	IPO Share Price (Gate)	If the Share Price cannot be maintained following IPO, new shareholders have lost wealth, and management should not be rewarded.	$1.42	Gate Not Met

3.3 KMP Remuneration fixed and short term mix potential and outcomes

Chart C below outlines the remuneration opportunities under Pepper Money's Executive Remuneration structures, with the outcomes dependent on performance over CY2022 for STVR and LTVR, and the 'Achieved' Remuneration payable in respect of the completed CY2022 year and performance delivered.

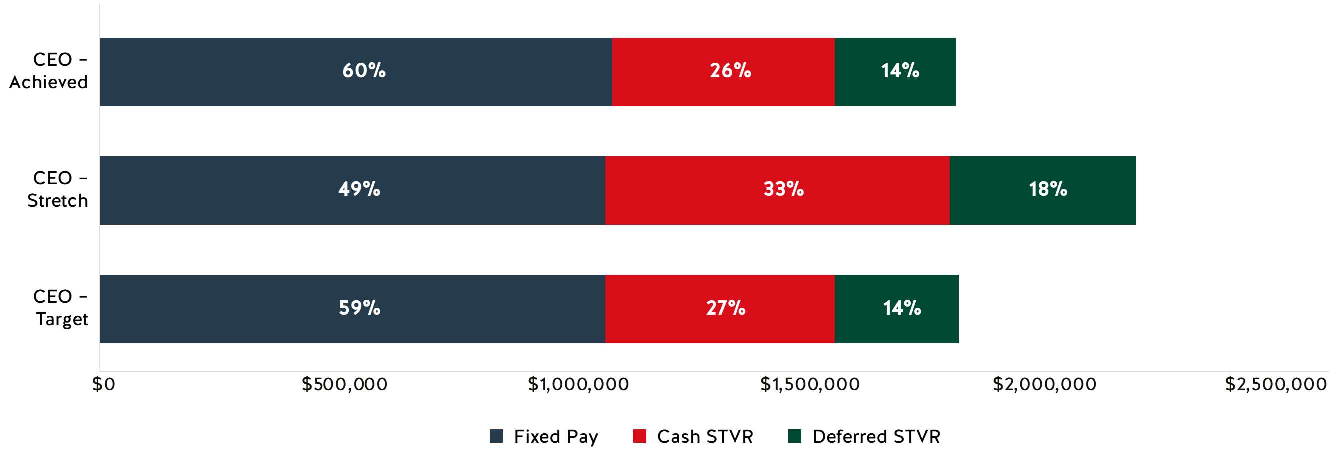
The CEO's target short term variable remuneration was 70% of Fixed Pay with a stretch of up to 105% of Fixed Pay. Based on outcomes, the achieved award payable in a mix of cash and equity was 67.8% of Fixed Pay i.e. approaching target.

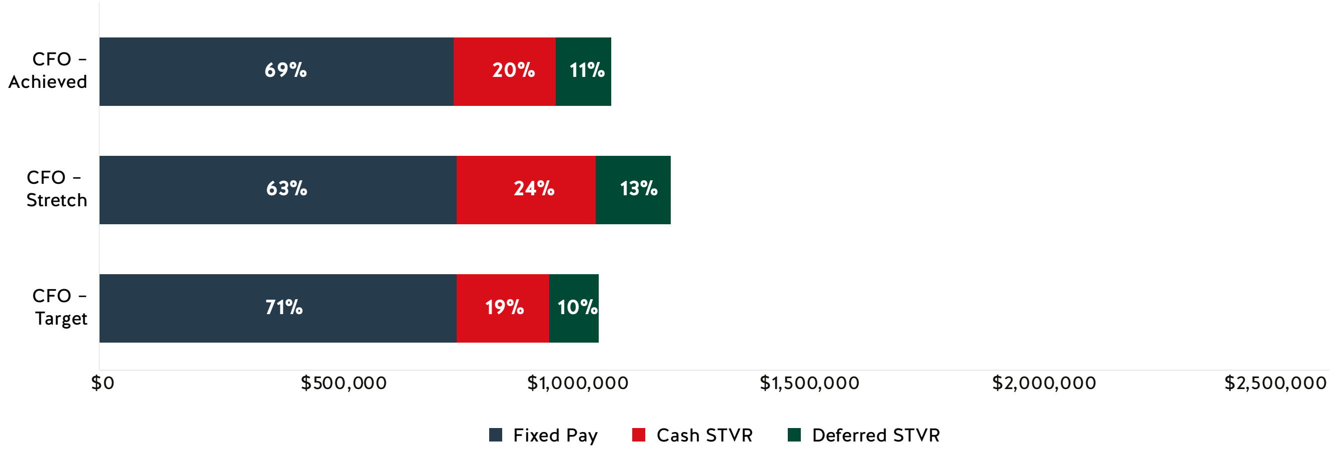
The CFO's target short term variable remuneration was 40% of Fixed Pay with a stretch of up to 60% of Fixed Pay. Based on outcomes, the achieved award payable in a mix of cash and equity was 44.3% of Fixed Pay i.e. between target and stretch.

The measurement period for the grants of LTVR has not yet been completed, and therefore no vesting occurred. The first vesting of the LTVR will be assessed following the completion of CY2023.

The IPO Equity Grant is a one-off grant not shown as part of the regular Target value in Chart C. As a result of the assessment of conditions following the end of the IPO grant measurement period on 31 December 2022, nil vesting occurred for the IPO grant and 100% of the grant lapsed.

Chart C: KMP Remuneration fixed and short term mix potential and outcome[4]





Note: 'Achieved' refers to Fixed Pay received during CY2022, Cash STVR awarded in respect of CY2022 performance and the amount of deferred STVR payable in respect of CY2022 that is not subject to vesting conditions (i.e. awarded after the end of the year).

3.4 Key KMP Remuneration Governance considerations

The following summarises the key remuneration governance matters that were the focus of considerations in CY2022, and those that are expected to be addressed in CY2023:

a. benchmarking Executive and Director remuneration against market comparator groups to inform quantum and mix decisions intended to meet post-listing strategy and market positioning;

b. development of CY2022 STVR and LTVR plans intended to align performance with reward and to meet ASX market stakeholder expectations and relevant legislative requirements;

c. development of Executive KMP equity structures that are compliant with governance requirements;

d. development of general employee equity plans to support employee engagement, alignment and motivation;

e. reviewing and adjusting vesting conditions related to the ROE tranche of LTVR, to provide a clearer link between performance and reward through pro-rata scaling, and to increase the hurdle;

f. recognising the CY2021 performance, determining to increase the CEO's Fixed Pay by 4.8% and the CFO's by 16.4%; and

g. recognising the performance of the executive team, the risk of losing key talent in a highly competitive market and their criticality to the business, that the IPO equity grant did not vest and that the long-term variable remuneration plan will not vest until after CY2023, determining it was necessary and appropriate to grant a one-off equity award in CY2023. This is discussed further below.

4. The first LTVR vesting is after CY2023, as such it is not included in Chart C.

4. Pepper Money's Remuneration Strategy, Policy and Framework

4.1 Overview of the KMP Remuneration Governance Framework

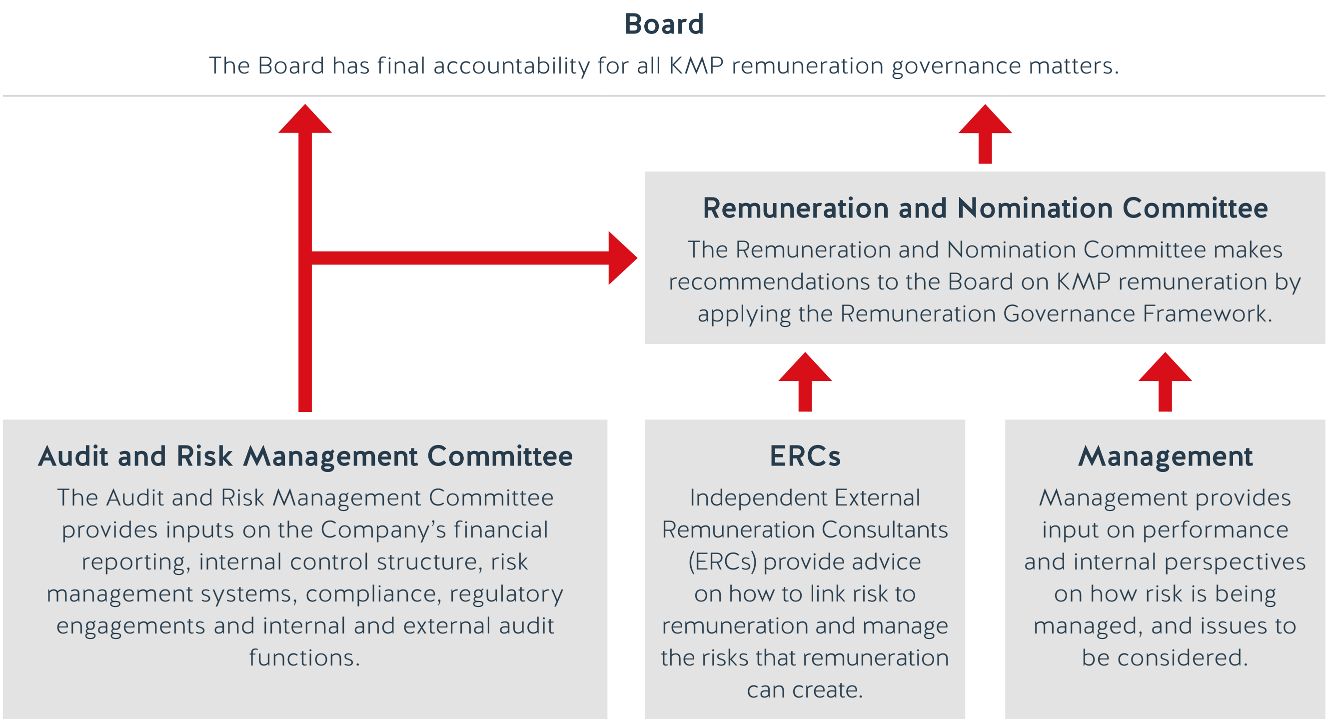
The following table outlines the elements and their purpose in Pepper Money's KMP Remuneration Governance Framework. The framework is intended to provide clarity to all stakeholders regarding approaches, rationale and the Board's position in relation to KMP remuneration governance matters.

Element	Purpose
Remuneration and Nomination Committee Charter	Mandates the role and responsibilities of the Remuneration and Nomination Committee and its members, which is focused on supporting the Board to apply sound KMP remuneration governance principles and practices.
Executive Remuneration Policy and Procedure	Outlines the principles underpinning executive remuneration governance, including desirable elements of remuneration, intended market positioning and processes to establish and regularly review executive remuneration, focussing on the link between performance and reward.
NED Remuneration Policy and Procedure	Outlines the principles underpinning Non-Executive Director remuneration governance, including desirable elements of remuneration, intended market positioning and processes to establish and regularly review NED remuneration, focussing on preserving NED independence.
STVR Policy and Procedure	Outlines the principles underpinning short term variable remuneration applicable to executives, including processes to annually review and calibrate the suitability and difficulty of performance hurdles against the Variable Remuneration Framework.
LTVR Policy and Procedure	Outlines the principles underpinning long-term variable remuneration applicable to executives, including processes to annually review and calibrate the suitability and difficulty of performance hurdles against the Variable Remuneration Framework.
Clawback and Malus Policy and Procedure	Empowers the Board to recover overpayments of variable remuneration ('Clawback') or adjust future remuneration opportunities that are on-foot ('Malus') to ensure that variable remuneration outcomes are appropriate and aligned with the experiences and expectations of stakeholders.
Share Holding Policy and Procedure	Empowers the Board to require that Directors, selected executives and KMP acquire and hold specified levels of equity interests in Pepper money to provide 'skin-in-the-game' alignment with shareholders, above and beyond variable remuneration structures, including processes to enforce such requirements.
KMP Remuneration Communication and Disclosure Policy and Procedure	Outlines the principles underpinning the disclosure of KMP remuneration by Pepper Money, including a commitment to go beyond statutory requirements to ensure that sufficient information is provided for shareholders to fully evaluate the quality of KMP remuneration governance, policies and practices.
STVR Plan	Defines the rules, terms, conditions and, annually, the specific performance hurdles that form the link between performance and reward over a 1-year period.
LTVR Plan	Defines the rules, terms, conditions and, annually, the specific performance hurdles that form the link between performance and reward over a 3-year period.

Element	Purpose
Securities Trading Policy	Applies to all employees of Pepper Money Limited. In accordance with the policy, Directors and Executives may only deal in Pepper Money securities during designated periods.
External Remuneration Consultant (ERC) Engagement Policy and Procedure	In order to make informed and objective decisions in relation to the remuneration of KMP, the Board may engage external remuneration consultants (**ERCs**) to provide independent professional advice on remuneration matters. The ERC engagement policy is designed to ensure that KMP remuneration advice received is independent and free from undue influence.

4.2 Interface between Remuneration Governance Framework and Risk Management Framework

The following outlines the interface between the Remuneration Governance Framework and the Risk Management Framework:



4.3 Executive Remuneration – Fixed Pay (FP), Total Remuneration Package (TRP) and the Variable Remuneration Framework

Executive KMP Remuneration is reviewed regularly by reference to appropriate independently sourced comparable benchmark data, and specific advice as may be appropriate from time to time. Benchmark groups are companies from relevant market comparator groups. Benchmarks may be adjusted upwards or downwards for variations in role design compared to market benchmark roles.

Fixed Pay comprises base salary plus any other fixed elements such as superannuation, salary sacrifice amounts, allowances and benefits. Fixed Pay is intended to be positioned at around P50 of market benchmarks for comparably designed roles, subject to an appropriate range compared to the policy midpoint, to reflect individual/incumbent factors such as experience, qualifications and performance.

The Board reviews Fixed Pay annually which may have flow-on implications for variable remuneration which is expressed as a percentage of Fixed Pay. In CY2022, a 4.8% Fixed Pay increase was applied for the Chief Executive Officer and a 16.4% Fixed Pay increase was applied for the Chief Financial Officer to recognise the value they bring to the business and the ongoing reliance on the leadership, expertise and contribution needed to deliver the Shareholders return over the longer term.

Total Remuneration Package is intended to be composed of an appropriate mix of remuneration elements including Fixed Pay, short term variable remuneration and long-term variable remuneration. The Target TRP is generally intended to fall around the P62.5 of market benchmarks, subject to smoothing for volatility across role samples at the same level. The Board views P62.5 market positioning as an indicator of actual/true P50 TTRP opportunities in the market. This is because market data often shows nil or negative variable remuneration values despite an incumbent having a real variable remuneration opportunity. Benchmarks are based on statutory disclosure by other companies (i.e. data is based on actual performance and reward outcomes, not policy/target levels of pay which are rarely disclosed). As a result, the Board has selected P62.5 as the intended TRP market position to adjust for the impact of nil and negative reported variable remuneration on statistical benchmarks.

Variable Remuneration is not intended to be a 'bonus', but a blend of at-risk remuneration (below Target) and incentives (above Target and up to Stretch/maximum). Metrics selected are intended to be linked to the primary drivers of value creation for stakeholders, and successful implementation of the long-term strategy over both the short and long term. Thresholds are intended to be a near-miss of expectations, while Target is intended to be a challenging but realistically achievable objective with a probability of around 50% to 60%. Stretch on the other hand is designed to be exceptionally challenging with a probability of around 10% to 20%.

The Board's approach to the variable remuneration framework and how it fits in the remuneration policy is demonstrated in the below graphic:

Variable Remuneration Component	Policy Market Position – TRP	Performance
Target to Stretch – Incentive/Upside	P100	Exceeds Expectations
	P62.5 to P100	
Target – Expected Reward	**P62.5**	**Meets Expectations**
Threshold to Target – At Risk/Down Side	P50 to P62.5	Below Expectations
Fixed Pay Only	P10	Below Threshold

4.4 CY2022 Short Term Variable Remuneration (STVR) Plan

The STVR plan is set out below:

Purpose

To provide at-risk remuneration and incentives that reward executives for performance against annual objectives set by the Board at the beginning of the calendar year. Objectives selected are designed to support long term value creation for shareholders, and link to long-term strategy on an annual basis.

Measurement Period

1 January 2022 to 31 December 2022.

Opportunity

	Opportunity as % of Fixed Pay	
	Target	**Stretch**
Chief Executive Officer	70%	105%
Chief Financial Officer	40%	60%

Outcome Metrics and Weightings

For CY2022, the following metrics and weightings applied:

- For the CEO, Mario Rehayem:
  - Group Pro-forma NPAT – 30%
  - Total Assets Under Management – 30%
  - Funding to support AUM targets – 10%
  - Customer Satisfaction – 10%
  - Individual Effectiveness (Leadership, People and Risk) – 20%
- For the CFO, Therese McGrath:
  - Group Pro-forma NPAT – 20%
  - Total Assets Under Management – 20%
  - Effective, accurate and timely financial controls and reporting including all financial and statutory reporting to ASX/ASIC requirements, investor reporting (debt and equity) and regulatory reporting (APRA, ATO and Treasury) – 10%
  - Cash Management – 20%
  - Number of Analysts reporting on PPM – 10%
  - Individual Effectiveness (Leadership, Cost Efficiencies and Risk) – 20%

These metrics were selected because they were viewed by the Board as being the key drivers of value creation, as applicable to the role, for CY2022. Refer to Section 5.1 from pages 71 and 72 for additional information regarding performance outcomes relative to objectives.

Gate

The following gates apply:

- the Participant's risk measurement result for the Measurement Period must be at least 'Meets Expectations' or better, and
- at least 85% of Group Pro-forma NPAT (adjusted for one off or non recurring items) must be achieved.

If both of these gates are not met, no outcome metrics will be assessed.

Award, Settlement and Deferral

Awards will be calculated following the auditing of financial statements.

- 65% of any STVR Award is to be paid in cash via payroll, subject to statutory deductions such as tax.
- 35% of any STVR Award is to be settled in the form of a grant of Restricted Rights subject to an Exercise Restriction until the end of CY2024. Any grant of deferred STVR Restricted Rights will be calculated based on the volume-weighted average price of Pepper Money shares over the 10 trading days following the release of prior year financial statements. Restricted Rights are granted under the Pepper Money Limited Executive Rights Plan and are subject to Exercise Restrictions for a period of 2 years to enable clawback if this is determined necessary by the Board.

Corporate Actions	For unpaid awards: in the event of a Change in Control (including a takeover) the Board has the discretion to: • terminate the plan and vest pro-rata awards based on the completed proportion of the Measurement Period, taking into account outcomes up to the date of the Change in Control, or • continue the STVR but make interim non-refundable pro-rata Awards based on the completed proportion of the Measurement Period, taking into account outcomes up to the date of the Change in Control, or • allow the STVR to continue without change. For deferred awards: Restricted Rights will cease to be subject to Exercise Restrictions prior to the return of capital or demerger, on the date determined by the Board.
Board Discretion	The Board has discretion to vary awards upwards or downwards, including to nil, if the award is viewed as inappropriate given circumstances that prevail over the Measurement Period (such as in the case of harm to Pepper Money's stakeholders for which Participants are accountable).
Malus and Clawback	Pepper Money's Malus policy applies to unpaid variable remuneration opportunities (including unpaid STVR), and deferred remuneration (including deferred STVR), while the Clawback policy applies to deferred remuneration only (deferred STVR), that is, it does not apply to cash already paid.

4.5 CY2022 Long Term Variable Remuneration (LTVR) Plan

The LTVR plan, which is operated under the Pepper Money Limited Executive Rights Plan, is set out below:

Purpose	The purpose of LTVR is to create a strong link between performance and reward for senior executives over the long term and to align the interests of participants with those of stakeholders through share ownership and performance testing.
Measurement Period	1 January 2022 to 31 December 2024 (3 years).
Grant Calculation	The number of Rights in a Tranche of LTVR to be granted are calculated via the application of the following formula: **Target LTVR $ x Tranche Weight at Target ÷ Right Value ÷ % Vesting at Target** where Right Value is based on the volume-weighted average price ($1.83) of Pepper Money shares over the 10 trading days following the release of CY2021 financial statements – Annual dividend ($0.09) x years to exercise (3) = $1.56
Opportunity and Grant Value	(see table below)

	Opportunity as % of Fixed Pay	
	Target	**Stretch**
Chief Executive Officer	80%	160%
Chief Financial Officer	40%	80%

Based on the Right Value of $1.56, the maximum/stretch level of grants made to KMP disclosed in this report respect of CY2022 LTVR were as follows:

- For the CEO, Mario Rehayem: **1,111,722** Performance Rights
- For the CFO, Therese McGrath: **371,770** Performance Rights

Instrument	The LTVR is in the form of Performance Rights with a nil Exercise Price, which are subject to performance and service vesting conditions.

Performance Metrics and Weightings	

Performance Metrics and Weightings

The Board has discretion to set Vesting Conditions for each tranche of each Invitation. For CY2022 LTVR grants, the following Vesting Conditions are anticipated to apply:

Tranche 1 (50% weight at Target) is to be subject to an Indexed Total Shareholder Return (iTSR) vesting condition. The vesting of such Performance Rights will be determined by comparing Pepper Money's TSR over CY2022 to CY2024 with the TSR of the ASX 300 Financials (Sector) Total Return Index, according to the following vesting scale:

Table 4: iTSR vesting scale

Performance Level	PPM's TSR Compared to movement in the ASX300 Financials (Sector) Total Return Index	% of Tranche Vesting
Stretch – Incentive/Upside	≥ Index Movement + 5% CAGR	100%
Between Target and Stretch	> Index Movement + 2.5% CAGR and < Index Movement + 5% CAGR	Pro-rata
Target – Expected Outcome/At-Risk	**Index Movement + 2.5% CAGR**	**50%**
Between Threshold and Target	> Index Movement and < Index Movement + 2.5% CAGR	Pro-rata
Threshold – Minimum Acceptable Outcome	= Index Movement	25%
Below Threshold	< Index Movement	0%

TSR is the sum of Pepper Money's share price appreciation and dividends (assumed to be reinvested in Shares) during the Measurement Period. It is annualised for the purpose of the above vesting scale. The TSR of Pepper Money over the Measurement Period will be calculated and converted to a compound annual growth rate (CAGR) value for the purpose of assessment against this scale. During periods of nil dividends being declared, TSR is equal to the change in Pepper Money's share price.

This metric was selected because it is the best measure of value creation for shareholders that adjusts for windfall gains and losses arising from market movements when it is not possible to identify a statistically robust group of directly comparable companies against which to rank TSR performance.

Tranche 2 (50% weight at Target) is to be subject to a Return on Equity (ROE) vesting condition:

Table 5: ROE vesting scale

Performance Level	Return on Equity (ROE)	% of Tranche Vesting
Stretch – Incentive/Upside	≥ 20%	100%
Between Target and Stretch	> 18% and < 20%	Pro-rata
Target – Expected Outcome/At-Risk	**18%**	**50%**
Between Threshold and Target	> 16% and < 18%	Pro-rata
Threshold – Minimum Acceptable Outcome	= 16%	25%
Below Threshold	< 16%	0%

Performance Metrics and Weightings *continued*	This metric was selected because it has strong links to long term sustainable financial health and performance, and to long term sustainable TSR growth. It has the advantage over EPS of having a natural standard, which is higher than the cost of equity. When the target for ROE is set as the cost of equity, the ROE hurdle is aligned with the concept of "Economic Profit" which measures value creation or destruction on the basis that shareholders require a return on their capital just as debt capital providers require returns in the form of interest. Research has shown that long term sustainable economic profit (ROE in excess of the cost of equity) is correlated with superior long term total shareholder returns.
Gates	The following gates apply to the above performance metrics: • Positive TSR: a positive TSR gate applies to the iTSR tranche for the measurement period in order for any vesting to occur (i.e. a negative TSR will result in nil vesting); and • Risk measurement: the rating for Pepper Money's Risk measurement must be at least 'meets expectations' in the final year of the measurement period. If this is not met, then nil vesting will occur.
Settlement	The Rights are 'Indeterminate Rights' which may be settled in the form of a Company Share (including a Restricted Share), or cash equivalent, upon valid exercise. It is generally expected that Restricted Shares will be used.
Term and Lapse	The Term of the Right is 15 years from the Grant Date. Rights lapse automatically if not exercised prior to the end of the Term or when there is no further opportunity for them to vest.
Service condition	Under the Rules, in addition to the performance conditions, continued service during the full first year of the Measurement Period is a requirement for all Rights to become eligible to vest. Termination during the first year will generally result in pro-rata forfeiture for the incomplete portion of the year, unless otherwise determined by the Board.
Retesting	No retesting facility is available under the Rights Plan Rules.
Corporate Actions	In the case of a Change in Control, nothing happens by default. In the case of delisting of Pepper Money's Shares, automatic vesting will occur based on the increase in the Share Price since the start of the Measurement Period for Rights with a nil Exercise Price, with Board discretion regarding the lapsing or vesting of any remainder. In the case of a major return of capital or demerger, the Board has discretion to bring forward vesting or to alter the number of Rights or the Exercise Price or to alter Vesting Conditions to ensure that the outcomes are fair to Participants. This is because following such an event the share price is likely to be materially different from the basis of the grant, and performance conditions previously set may be unable to be met.
Board Discretion	The Board has discretion to vary vesting upwards or downwards, including to nil, in the circumstance that the outcome would otherwise be likely to be viewed as inappropriate given the circumstances that prevailed over the Measurement Period (such as in the case of harm to Pepper Money's stakeholders for which a Participant or Participants are accountable).
Malus and Clawback	Pepper Money's Malus policy applies to unpaid variable remuneration opportunities (including unvested LTVR). LTVR grants are not subject to deferral following vesting, so cannot be clawed back, however, the pool of deferred STVR could be used as a source of clawback for overpaid LTVR.

4.6 CY2023 KMP Remuneration outlook

In CY2023, it is expected that a one-off Equity Recognition Award will be granted as part of the CY2023 Executive Total Remuneration Package. This is to recognise, motivate and retain KMP and other key executives to continue to deliver Pepper Money's strategy and operating performance over the next 24 months. The assessment and considerations are:

- unique skills in the non-bank lending sector;
- lack of LTVR vesting opportunity in CY2022/CY2023;
- deferral of 35% of the STVR in previous years;
- IPO equity opportunity not vesting for reasons outside management's direct control; and
- equity instrument to remunerate on a one-off basis.

The details of the one-off Equity Recognition Award are set out in the table below.

Table 6: One-off Equity Recognition Award

Design Element	Approach	Considerations
Grant Value	100% of CY2023 Fixed Pay for KMP (CEO and CFO)	Ability to grant quantum that is significant to KMP. Generally, these critical roles require larger reward opportunities to ensure the desired impact on the incumbent. Suggested awards are typically in the range of 50% to 150% of fixed pay for the roles of CEO and CFO.
Grant Calculations	Right Value = Share Price[5] – Annual dividend x years to Exercise	Consistent with Board policy regarding all grants of equity under the Executive Equity Plan.
Grant Date	In or around a date in May 2023	Expected to follow shareholder approval for the CEO.
Instrument	Service Rights	An equity instrument is more aligned with shareholder experience than a cash award. Because of the rationale for the grant, it was not appropriate to use Performance Rights, which are already on-foot under the LTVR. Restricted Rights were not considered because PPM wishes to attain a retention effect from the grant, and as such Service Rights will achieve this most directly.
Measurement Period	1 January 2023 to 31 December 2024	The period was selected to cover the period of high competition for talent and high market movements expected in the market, and to provide overlap with the LTVR arrangements on-foot.
Vesting Schedule	• 30% vesting following the release of the annual report in 2024, and • 70% vesting following the release of the annual report in 2025.	The vesting schedule creates a balance between the needs of stakeholders that are being addressed by the grant: it is weighted towards the business' need to retain talent over the long term, but provides some vesting opportunity on a progressive basis.
Vesting Condition	Continued service	The primary purpose of the grant is to ensure retention of key talent in a highly competitive and fast moving market, and as such service testing is the most directly aligned measure for vesting condition purposes.
Gate	Individual performance rating must be at least 'Meets Expectations' in the final year of the Measurement Period.	This award will not be assessed if the gate is not met or exceeded.

5. Share Price is calculated as 10 trading days VWAP following the release of full year financial results prior to the Grant Date.

Design Element	Approach	Considerations
Other Terms	• Board Discretion • Malus and Clawback	• The Board has the discretion to vary awards upwards or downwards, including to nil, if the award is viewed as inappropriate given circumstances that prevail over the Measurement Period (such as in the case of harm to Pepper Money's stakeholders for which Participants are accountable). • Pepper Money's Malus policy applies to unpaid variable remuneration opportunities, and deferred remuneration, while the Clawback policy applies to deferred remuneration only, that is, it does not apply to cash already paid.

4.7 CY2022 Non-Executive Director (NED) Remuneration

4.7.1 Fee Policy

The following outlines the principles that Pepper Money applies to governing NED remuneration:

Policy

Non-Executive Directors' fees are recommended by the Remuneration & Nomination Committee and determined by the Board. External consultants may be used to source the relevant data and commentary or to obtain independent recommendations, given the potential for a conflict of interest in the Board setting its own fees. The combination of cash Board Fees, equity (if any), Committee Fees and benefits such as superannuation (together Main Board Package) is intended to cluster around the P50 of market benchmarks, relative to the contribution or workload of each NED i.e. those NEDs who contribute the most to committee work will receive an MBP above P50, and those who contribute the least, below P50.

Non-Executive Directors can elect how they wish to receive their fees – i.e. as cash, superannuation contributions or equity. To preserve independence and impartiality, Non-Executive Directors are not entitled to any form of variable remuneration payments and the level of their fees is not set with reference to measures of Pepper Money's performance.

Table 7: NED Fee Policy

Role/Function	Main Board	Audit and Risk	Remuneration and Nomination
Chair	$234,000	$26,000	$26,000
Member	$115,000	$13,000	$13,000

Fees are inclusive of superannuation.

Note: Shareholder representatives NED's do not include Superannuation. Non-Executive Directors are also reimbursed for out-of-pocket expenses that are directly related to Pepper Money's business.

Aggregate Board Fees

The total amount of fees paid to Non-Executive Directors in the year ended 31 December 2022 is within the aggregate amount of $1,221,000 per year. Grants of equity approved by shareholders are excluded from counting towards the aggregate Board Fees, in accordance with the ASX Listing Rules.

4.7.2 NED Fee Sacrifice Equity Plan

There were no grants under the NED Equity Plan in CY2022.

4.8 Non-KMP Executive Remuneration

For Executives who report to the CEO, and who are not classified as KMP, the Board has determined that the same Remuneration policies, principles, processes and structures will apply, as it applies to KMP. This is intended to ensure that the Executive team is consistently aligned with the interests of other stakeholders including shareholders. To the extent appropriate, performance metrics and weightings are applied consistently across the Group to support that alignment, however, in the case of the STVR there is some variation to recognise differences in role responsibility and organisation impact below the group level metrics, as appropriate to the business unit or role function. The one-off Equity Recognition Award is expected to be applied to Executives at an appropriate level to their role.

5 The link between performance and reward in CY2022

The Board views the remuneration outcomes for CY2022 performance as appropriately aligned to stakeholder interests, given the strong group and individual performance against annual objectives, and progress towards strategic objectives made by the Executive team. The lapsing of equity due to gates linked to shareholder returns has created a clear alignment outcome in respect of the total shareholder return view of performance, while alternative views of performance such as financial performance, ROE and economic profitability have appropriately resulted in some rewards flowing to KMP.

5.1 CY2022 STVR outcomes

The STVR plan is designed to reward executives for achievement against annual performance objectives set by the Board at the beginning of the performance period. The payment of an STVR is dependent on delivery of performance against a range of outcome metrics. The performance metrics and outcomes of assessment against those metrics are summarised below:

The CEO's target short term variable remuneration was 70% of Fixed Pay with a stretch of up to 105% of Fixed Pay. Based on outcomes, the achieved award payable in a mix of cash and equity was 67.8% of Fixed Pay i.e. approaching target.

The CFO's target short term variable remuneration was 40% of Fixed Pay with a stretch of up to 60% of Fixed Pay. Based on outcomes, the achieved award payable in a mix of cash and equity was 44.3% of Fixed Pay i.e. between target and stretch.

Table 8a: STVR outcomes for the Chief Executive Officer

	Metric/Measure	Weighting	Performance	Outcome (% of Target)	% of Target % Payable
Financial - 60%	**Group Pro-forma NPAT ($M)**				
	Group Pro-forma NPAT provides the insight on the underlying performance for the period by excluding one off non-recurring items.	30%	$142.0	▼69% (Threshold 50% / Target 100% / Stretch 150%)	20.7%
	Total Assets Under Management ($bn)				
	Total Assets Under Management reflects AUM from lending and servicing as at 31 December 2022 (closing).	30%	$19.2	▼97% (Threshold 50% / Target 100% / Stretch 150%)	29.1%
Individual - 40%	**Individual Effectiveness**				
	Funding to support AUM targets ($bn)	10%	$18.4	▼150% (Threshold 50% / Target 100% / Stretch 150%)	15.0%
	Risk and Compliance Measured by Issues & incidents reported within 5 days and On time completion of treatment plans.	10%	95%	▼100% (Threshold 50% / Target 100% / Stretch 150%)	10.0%
	Leadership Effectiveness Executive Engagement Overall Company Engagement Succession Planning – all key roles have identified successor/emergency Executive Attrition Board 360	10%	98 78 95%-99% 0% 3	▼120% (Threshold 50% / Target 100% / Stretch 150%)	12.0%
	Customer Satisfaction – Social Media reviews	5%	4.2	▼100% (Threshold 50% / Target 100% / Stretch 150%)	5.0%
	Customer Satisfaction – Broker NPS scores	5%	Mortgage customer 8 Asset Finance customer 34 Mortgage broker 32	▼100% (Threshold 50% / Target 100% / Stretch 150%)	5.0%
	Total Weighting	**100%**		**Total % of Target % Payable**	**96.8%**

Table 8b: STVR outcomes for the Chief Financial Officer

	Metric/Measure	Weighting	Performance	Outcome (% of Target)	% of Target % Payable
Financial – 40%	**Group Pro-forma NPAT ($M)**				
	Group Pro-forma NPAT provides the insight on the underlying performance for the period by excluding one-off non-recurring items.	20%	$142.0	69%	13.8%
	Total Assets Under Management ($bn)				
	Total Assets Under Management reflects AUM from lending and servicing as at 31 December 2022 (closing).	20%	$19.2	97%	19.4%
Operational – 40%	**Strategic Objectives**				
	Effective, accurate and timely financial controls and reporting including all financial and statutory reporting to ASX/ ASIC requirements, investor reporting (debt and equity) and regulatory reporting (APRA, ATO and Treasury)	10%	Exceeded objectives	150%	15.0%
	Cash Management: Liquidity	20%	Cash > 20% of the cash outflow for a projected period of at least the next 3 months	150%	30.0%
	No of Analyst reporting on PPM	10%	5	150%	15.0%
Individual – 20%	**Individual Effectiveness (People and Risk)**				
	Employee Engagement Score	5%	83	100%	7.5%
	Operational and transformational efficiencies (CTI)	5%	46%	0%	0.0%
	Risk and Compliance measured by Issues and incidents reported within 5 days and On time completion of treatment plans.	10%	95%	100%	10.0%
	Total Weighting	**100%**		**Total % of Target % Payable**	**110.7%**

5.2 CY2022 LTVR outcomes

Because the first grant of long-term variable Remuneration is on-foot for testing in future years, no vesting of LTVR has occurred in respect of CY2022 performance.

5.3 Achieved Total Remuneration Package for CY2022

The following outlines 'Achieved' (what became payable, awarded or vested in respect of CY2022 performance completed) total remuneration, including the portions of maximum variable remuneration that were awarded or vested, and portions that were forfeited or lapsed as the result of performance assessments completed as at the completion of CY2022:

Table 9: Achieved Total Remuneration Package for Executive KMP

			Fixed Package (incl Super)		Total STVR Awarded Following Completion of CY		Value of LTVR that Vested Following Completion of the Measurement Period of CY*		Total Remuneration Package (TRP)
Name	**Role(s)**	**Year**	**Amount**	**% of TRP**	**Amount**	**% of TRP**	**Amount**	**% of TRP**	
Mario Rehayem	Chief Executive Officer	**CY2022**	**$1,102,940**	**60%**	**$736,998**	**40%**	**$0**	**0%**	**$1,839,938**
	Chief Executive Officer	CY2021	$1,034,825	53%	$930,927	47%	$0	0%	$1,965,752
Therese McGrath	Chief Financial Officer	**CY2022**	**$720,055**	**69%**	**$321,826**	**31%**	**$0**	**0%**	**$1,041,881**
	Chief Financial Officer	CY2021	$621,712	66%	$316,682	34%	$0	0%	$938,394

* Note: 35% of the STVR award is settled in deferred equity using Restricted Rights, while 65% is settled in cash.

** This is the grant value of the LTVR that vested in the reporting period.

5.4 Use of Board Discretion

During the calendar year and to the date of this report, the Board did not exercise any discretions available to modify STVR or LTVR outcomes, vesting or awards.

6 Statutory Tables and Supporting Disclosures

6.1 Executive KMP Statutory Remuneration for CY2022

The following table outlines the statutory remuneration of executive KMP:

Table 10: Executive KMP statutory remuneration

			Fixed Pay					
							Total Fixed Pay	
Name	Role(s)	Year	Salary	Equity (as part of Fixed Pay)	Super	Other Benefits*	Amount	% of TRP
Mario Rehayem	Chief Executive Officer	**CY2022**	**$956,636**	**–**	**$24,430**	**$121,874**	**$1,102,940**	**35%**
	Chief Executive Officer	CY2021	$911,962	–	$21,856	$101,006	$1,034,825	35%
Therese McGrath	Chief Financial Officer	**CY2022**	**$643,909**	**–**	**$59,446**	**$16,700**	**$720,055**	**48%**
	Chief Financial Officer	CY2021	$551,172	–	$53,840	$16,700	$621,712	47%

* Other benefits include items such as car parking, car allowances, insurance etc.

** The STVR/bonus value reported in the table is the award that was paid during the reporting period, being the award earned during the previous period. Variable remuneration outcomes for the reporting period are outlined elsewhere in this report.

*** Note that the LTVR and IPO Equity values reported in this table are the amortised accounting charge of all grants that have not lapsed or vested as at the start of the reporting period. Where a market based measure of performance is used such as TSR, no adjustments can be made to reflect actual LTVR vesting.

6.2 Non-Executive Director (NED) KMP Statutory Remuneration for CY2022

The total amount of fees paid to Non-Executive Directors in the year ended 31 December 2022 is within the aggregate amount set for the purposes of ASX Listing Rules and the Constitution as part of the Prospectus of $1,221,000 per year. Grants of equity approved by shareholders are excluded from counting towards the aggregate Board Fees, in accordance with the ASX Listing Rules.

The following table outlines the statutory and audited remuneration of NEDs:

Table 11: NED statutory remuneration

Name	Role(s)	Year	Board Fees
Michael Culhane*	Non-Executive Chair and Shareholder Representative	**CY2022**	**$234,000**
	Non-Executive Chair and Shareholder Representative	CY2021	$156,000
Des O'Shea**	Non-Executive Director and Shareholder Representative	**CY2022**	**$115,000**
	Non-Executive Director and Shareholder Representative	CY2021	$76,667
Mike Cutter	Independent Non-Executive Director	**CY2022**	**$104,298**
	Independent Non-Executive Director	CY2021	$82,920
Akiko Jackson	Independent Non-Executive Director	**CY2022**	**$104,298**
	Independent Non-Executive Director	CY2021	$76,601
Justine Turnbull	Independent Non-Executive Director	**CY2022**	**$104,298**
	Independent Non-Executive Director	CY2021	$82,920
Rob Verlander	Independent Non-Executive Director	**CY2022**	**$104,298**
	Independent Non-Executive Director	CY2021	$76,601

* Note that Michael Culhane is remunerated as CEO by the Pepper Global Group. The total remuneration for him was paid to Pepper Group Holdco Limited and treated as a recovery cost.

** The total remuneration for Des O'Shea was paid to Pepper Group Holdco Limited and this entity passed on the full amount to Des O'Shea.

*** Committee fees paid in CY2022 include the payment of $7,879 inclusive of superannuation made in January 2022 for Q4 CY2021.

	Variable Remuneration								Total for Year
	Cash STVR**		Deferred STVR**		IPO Equity***		LTVR***		
	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	Total Remuneration Package (TRP)
	$605,102	**19%**	**$325,825**	**10%**	**$375,640**	**12%**	**$786,499**	**25%**	**$3,196,006**
	$1,310,000	44%			$185,017	6%	$465,890	16%	$2,995,731
	$205,843	**14%**	**$110,839**	**7%**	**$227,256**	**15%**	**$248,142**	**16%**	**$1,512,135**
	$441,667	34%			$111,932	9%	$140,928	11%	$1,316,238

	Committee Fees***	Superannuation	Other Benefits	Equity Grant Expense	Termination Benefits	Total
	$26,000	**–**	**–**	**–**	**–**	**$260,000**
	$15,167	–	–	–	–	$171,167
	$26,000	**–**	**–**	**–**	**–**	**$141,000**
	$15,167	–	–	–	–	$91,834
	$31,450	**$13,918**	**–**	**–**	**–**	**$149,666**
	$5,909	$9,180	–	$97,888	–	$195,897
	$31,450	**$13,918**	**–**	**–**	**–**	**$149,666**
	$5,909	$8,029	–	$97,888	–	$188,427
	$31,450	**$13,918**	**–**	**–**	**–**	**$149,666**
	$5,909	$9,180	–	$97,888	–	$195,897
	$31,450	**$13,918**	**–**	**–**	**–**	**$149,666**
	$5,909	$8,029	–	$97,888	–	$188,427

6.3 KMP equity interests and changes during CY2022

Movements in equity interests held by executive KMP during the reporting period, including their related parties, are set out below:

Table 12: Executive KMP equity movements

		Number Held at Open CY2022	Granted CY2022		Forfeited during CY2022	Vested and Exercisable during CY2022
Name	**Instrument**	**Number**	**Date Granted**	**Number**	**Number**	**Number**
Mario Rehayem	Shares	2,430,487				
	Vested Rights	–	12/5/2022	197,457		
	Unvested Rights	837,035	12/5/2022	1,111,722	267,139	
	Vested SARs	–				
	Unvested SARs	771,631			771,631	
Therese McGrath	Shares	101,704				
	Vested Rights	–	12/5/2022	67,171		
	Unvested Rights	334,004	12/5/2022	371,770	161,615	
	Vested SARs	–				
	Unvested SARs	466,824			466,824	
Totals		**4,941,685**		**1,748,120**	**1,667,209**	

* % of holding policy met is calculated by reference to the number interests in full shares (including unexercised Rights with nil exercise price) held at the end of the financial year, multiplied by the closing share price for the year.

	Vested and Not Exercisable during CY2022	CY2022 Exercised (or Shares received from Exercising)	Net Value at Exercise (after Exercise Price)	CY2022 Purchased/ Other	CY2022 Sold	Number held at Close CY2022	% of Holding Policy Met*
	Number	Number	$	Number	Number	Number	Percent
						2,430,487	
	197,457					197,457	
						1,681,618	338%
						–	
						–	
						101,704	
	67,171					67,171	
						544,159	33%
						–	
						–	
						5,022,596	

Movements in equity interests held by non-executive KMP during the reporting period, including their related parties, are set out below:

Table 13: Non-Executive KMP equity movements

		Number Held at Open CY2022	Granted CY2022		Forfeited during CY2022	Vested and Exercisable during CY2022
Name	**Instrument**	**Number**	**Date Granted**	**Number**	**Number**	**Number**
Michael Culhane**	Unrestricted Shares	–				
	Restricted Shares	–				
	Restricted Rights	–				
Des O'Shea	Unrestricted Shares	41,523				
	Restricted Shares	–				
	Restricted Rights	–				
Mike Cutter	Unrestricted Shares	17,302				
	Restricted Shares	–				
	Restricted Rights	39,792				
Akiko Jackson	Unrestricted Shares	34,603				
	Restricted Shares	–				
	Restricted Rights	39,792				
Justine Turnbull	Unrestricted Shares	10,000				
	Restricted Shares	–				
	Restricted Rights	39,792				
Rob Verlander	Unrestricted Shares	51,905				
	Restricted Shares	–				
	Restricted Rights	39,792				
Totals		**314,501**				

* % of holding policy met is calculated by reference to the number interests in full shares (including unexercised Rights with nil exercise price) held at the end of the financial year, multiplied by the closing share price for the year.

** Michael Culhane holds 7,820,624 shares in Pepper TopCo (TopCo). Pepper TopCo is a related body corporate of Pepper Money Limited. As at 31 December 2022, TopCo 60.59% in the ordinary shares of Pepper Money through its indirectly wholly-owned subsidiary Pepper Group ANZ HoldCo Limited.

Vested and Not Exercisable during CY2022	CY2022 Exercised (or Shares received from Exercising)	Net Value at Exercise (after Exercise Price)	CY2022 Purchased/ Other	CY2022 Sold	Number held at Close CY2022	% of Holding Policy Met*
Number	Number	$	Number	Number	Number	Percent
					–	
					–	–
					–	
					41,523	
					–	51%
					–	
					17,302	
	39,792				39,792	70%
	(39,792)				–	
					34,603	
	39,792				39,792	92%
	(39,792)				–	
					10,000	
	39,792				39,792	61%
	(39,792)				–	
					51,905	
	39,792				39,792	113%
	(39,792)				–	
	–				**314,501**	**n/a**

The following table outlines the accounting values and potential future costs of equity remuneration granted during CY2022 for executive KMP:

Table 14: Executive KMP equity remuneration

2022 Equity Grants				
Name	**Tranche**	**Grant Type**	**Number**	**Vesting Conditions**
Mario Rehayem	CY2022 LTVR Performance Rights	LTVR	555,861	iTSR
	CY2022 LTVR Performance Rights	LTVR	555,861	ROE
	CY2021 LTVR Performance Rights	LTVR	284,948	iTSR
	CY2021 LTVR Performance Rights	LTVR	284,948	ROE
	IPO Service Rights	IPO	267,139	Service
	IPO Service SARs	IPO	771,631	Service
	CY2022 Deferred STVR Restricted Rights*	STVR	–	Exercise Restriction
	CY2021 Deferred STVR Restricted Rights	STVR	197,457	Exercise Restriction
Therese McGrath	CY2022 LTVR Performance Rights	LTVR	185,885	iTSR
	CY2022 LTVR Performance Rights	LTVR	185,885	ROE
	CY2021 LTVR Performance Rights	LTVR	86,194	iTSR
	CY2021 LTVR Performance Rights	LTVR	86,195	ROE
	IPO Service Rights	IPO	161,615	Service
	IPO Service SARs	IPO	466,824	Service
	CY2022 Deferred STVR Restricted Rights*	STVR	–	Exercise Restriction
	CY2021 Deferred STVR Restricted Rights	STVR	67,171	Exercise Restriction
TOTALS			**4,157,614**	

* CY2022 Deferred STVR Restricted Rights are estimated to be granted in May 2023. The number of restricted rights will be determined based on the deferral portion of the CY2022 STVR outcome and a 10 day VWAP following the release of CY2022 financial results on 23 February 2023.

Note: the minimum value to be expensed in future years for each of the above grants made in CY2022 is nil. A reversal of previous expense resulting in a negative expense in the future may occur in the event of an executive KMP departure or failure to meet non market-based conditions including failure for gate to open.

6.4 KMP Service Agreements

6.4.1 Executive KMP Service Agreements

The following outlines current Executive KMP service agreements:

Table 15: Executive KMP service agreements

				Period of Notice		
Name	**Position Held at Close of CY2022**	**Employing Company**	**Contract Type**	**From Company**	**From KMP**	**Termination Payments***
Mario Rehayem	Chief Executive Officer	Pepper Money Limited	Permanent	12 months	12 months	n/a
Therese McGrath	Chief Financial Officer	Pepper Money Limited	Permanent	6 months	6 months	n/a

* Note: Under the Corporations Act, broadly the Termination Benefit Limit is 12 months average Salary (over prior 3 years) unless shareholder approval is obtained.

Grant Date	Fair Value Each at Grant Date	Total Fair Value at Grant	Value Expensed in CY2022	Max Value to be Expensed in Future Years
12/5/2022	0.735	408,558	102,012	306,546
12/5/2022	1.575	875,481	218,597	656,884
24/9/2021	0.93	265,002	132,501	–
24/9/2021	2.34	666,778	333,389	–
24/9/2021	1.03	275,153	184,353	–
24/9/2021	0.37	285,503	191,287	–
			257,949	
12/5/2022			–	
12/5/2022	0.735	136,625	34,114	102,512
12/5/2022	1.575	292,769	73,101	219,668
24/9/2021	0.93	80,161	40,081	–
24/9/2021	2.34	201,694	100,847	–
24/9/2021	1.03	166,463	111,530	–
24/9/2021	0.37	172,725	115,726	–
			112,639	
12/5/2022			–	–
		3,826,912	**2,008,125**	**1,285,610**

6.4.2 Non-Executive Directors (NEDs) Service Agreements

The appointment of Non-Executive Directors is subject to a letter of engagement. The NEDs are not eligible for any termination benefits following termination of their office, nor any payments other than those required under law such as in respect of superannuation. There are no notice periods applicable to either party.

6.5 Other Statutory Disclosures

6.5.1 Loans to KMP and their related parties

During CY2022, no additional loans were made to KMP's or their related parties (CY2021 Management Loan of $3,132,712 to Mario Rehayem).

6.5.2 Other transactions with KMP

There were no other disclosable transactions with KMP for CY2022.

6.5.3 External Remuneration Consultants

During CY2022 the Board engaged approved External Remuneration Consultants to provide KMP remuneration advice (including remuneration recommendations) and other services as outlined below:

- Ernst & Young (EY): Assistance and advice with the one-off Equity Recognition Award arrangement and considerations – $30,030 (incl. GST)
- Godfrey Remuneration Group (GRG) in support of the CY2021 rem report - $9,350 (incl. GST).

Consolidated Financial Statements

for the year ended 31 December 2022

Pepper Money Limited

ASX: PPM

Contents

Auditor's Independence Declaration

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23 February 2023

The Board of Directors
Pepper Money Limited
Lvl 27, 177 Pacific Hwy
North Sydney, NSW 2060

Dear Board Members,

Auditor's Independence Declaration to 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 audit of the financial report of Pepper Money Limited for the year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Consolidated Statement of Profit or Loss

	Notes	Year ended 31 December 2022 $M	31 December 2021 $M
Interest income	4(A)	**955.4**	690.3
Interest expense[1]	4(A)	**(566.5)**	(323.7)
Net interest income from continuing operations[1]	4(A)	**388.9**	366.6
Lending fee income	4(B)	**71.0**	59.9
Lending expense	4(B)	**(55.7)**	(47.2)
Whole loan sales gain		**8.2**	9.5
Loan losses	5(B)	**(33.3)**	(24.6)
Servicing fees and other income	4(B)	**29.1**	11.6
Total operating income from continuing operations		**408.2**	375.8
Employee benefits expense	4(D)	**(113.9)**	(98.3)
Marketing expense	4(D)	**(13.8)**	(10.8)
Technology expense	4(D)	**(23.8)**	(19.9)
General and admin expense	4(D)	**(19.2)**	(25.6)
Fair value (losses)/gains on financial assets		**(2.1)**	0.2
Impairment losses on financial assets		**–**	(0.3)
Depreciation and amortisation expense	9(A), 9(B)	**(20.4)**	(24.5)
Corporate interest expense	4(D)	**(13.3)**	(10.3)
Operating expenses from continuing operations		**(206.5)**	(189.5)
Profit before income tax from continuing operations		**201.7**	186.3
Income tax expense	4(E)	**(61.2)**	(55.6)
Net profit after income tax from continuing operations		**140.5**	130.7
Profit from discontinued operations	18(B)	**–**	182.2
Net profit after income tax		**140.5**	312.9
Attributable to equity holders of Pepper Money Limited		**141.0**	312.9
Attributable to non-controlling interests		**(0.5)**	–

	Notes	Cents per share	Cents per share
Earnings per share (EPS)	4(F)		
Basic EPS from continuing operations		**31.97**	36.38
Basic EPS from discontinued operations		**–**	50.71
Diluted EPS from continuing operations		**31.34**	35.93
Diluted EPS from discontinued operations		**–**	50.09

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

1. Excludes corporate interest expense.

Consolidated Statement of Comprehensive Income

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Net profit after tax from continuing operations	**140.5**	130.7
Net profit after tax from discontinued operations	**–**	182.2
Net profit after tax	**140.5**	312.9
Other comprehensive income that may be recycled to profit or loss		
Currency translation movement	**(0.2)**	12.3
Changes in fair value of hedging instruments	**116.5**	69.7
Other reserve movement	**–**	3.8
Income tax relating to items that may be recycled to profit or loss	**(34.9)**	(19.5)
Total other comprehensive income that may be recycled to profit or loss	**81.4**	66.3
Total comprehensive income for the period	**221.9**	379.2
Total comprehensive income attributable to:		
Owners of Pepper Money Limited	**222.4**	379.2
Non-controlling interests	**(0.5)**	–

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

Consolidated Statement of Financial Position

	Notes	As at 31 December 2022 $M	As at 31 December 2021 $M
Assets			
Cash and cash equivalents	5(A)	**1,243.6**	1,309.2
Receivables		**10.3**	9.4
Loans and advances	5(B)	**18,327.8**	15,819.8
Derivative financial assets	7(B)(h)	**134.0**	23.7
Other financial assets	5(C)	**19.4**	23.0
Other assets		**9.0**	7.5
Deferred tax assets	4(E)	**4.0**	37.5
Property, plant and equipment	9(A)	**19.0**	6.6
Goodwill and intangibles	9(B)	**152.3**	31.5
Total assets		**19,919.4**	17,268.2
Liabilities			
Trade payables		**13.4**	11.2
Current tax		**24.5**	39.2
Provisions	6(A)	**24.8**	26.8
Borrowings	6(B)	**18,979.2**	16,517.2
Derivative liabilities	7(B)(h)	**3.3**	17.5
Other liabilities	6(C)	**22.8**	19.9
Deferred tax liabilities	4(E)	**10.1**	–
Total liabilities		**19,078.1**	16,631.8
Total net assets		**841.3**	636.4
Equity			
Issued capital	8(A)	**729.6**	729.3
Other reserves	8(B)	**99.8**	12.4
Retained earnings		**(27.5)**	(105.3)
Total equity attributable to owners of Pepper Money Limited		**801.9**	636.4
Non-controlling interests		**39.4**	–
Total equity		**841.3**	636.4

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

Consolidated Statement of Changes in Equity

	Issued capital $M	Other equity $M	Currency translation reserve $M	Cash flow hedge reserve $M	Share-based payments reserve $M	Retained earnings $M	Attributable to owners of the Group $M	Non-controlling interests $M	Total equity $M
1 January 2021									
Opening balance	601.8	(19.5)	(1.9)	(43.7)	–	197.2	733.9	1.0	734.9
Profit for the period	–	–	–	–	–	312.9	312.9	–	312.9
Currency translation movements	–	–	12.3	–	–	–	12.3	–	12.3
Cash flow hedge movements	–	–	–	50.2	–	–	50.2	–	50.2
Share-based payments	–	–	–	–	3.8	–	3.8	–	3.8
Total comprehensive expense	–	–	12.3	50.2	3.8	312.9	379.2	–	379.2
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	(10.5)	2.2	–	4.6	10.2	(1.0)	9.2
Balance as at 31 December 2021	**729.3**	**–**	**(0.1)**	**8.7**	**3.8**	**(105.3)**	**636.4**	**–**	**636.4**
1 January 2022									
Opening balance	**729.3**	**–**	**(0.1)**	**8.7**	**3.8**	**(105.3)**	**636.4**	**–**	**636.4**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**141.0**	**141.0**	**(0.5)**	**140.5**
Currency translation movements	**–**	**–**	**(0.2)**	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Cash flow hedge movements	**–**	**–**	**–**	**81.6**	**–**	**–**	**81.6**	**–**	**81.6**
Total comprehensive income	**–**	**–**	**(0.2)**	**81.6**	**–**	**141.0**	**222.4**	**(0.5)**	**221.9**
Ordinary shares issued	**0.3**	**–**	**–**	**–**	**–**	**–**	**0.3**	**–**	**0.3**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(63.3)**	**(63.3)**	**–**	**(63.3)**
Share-based payments	**–**	**–**	**–**	**–**	**6.1**	**–**	**6.1**	**–**	**6.1**
Transfer of share-based payments reserve to retained earnings	**–**	**–**	**–**	**–**	**(0.1)**	**0.1**	**–**	**–**	**–**
Acquisition of non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**39.9**	**39.9**
Balance as at 31 December 2022	**729.6**	**–**	**(0.3)**	**90.3**	**9.8**	**(27.5)**	**801.9**	**39.4**	**841.3**

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

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2022 $M	31 December 2021 $M
Cash flows from operating activities			
Interest received		**890.3**	654.9
Interest paid		**(550.9)**	(324.4)
Receipts from loan fees and other income		**95.6**	68.9
Payments of net loans to borrowers		**(2,832.7)**	(2,859.4)
Payments to suppliers and employees		**(240.1)**	(202.4)
Income taxes paid		**(72.5)**	(55.8)
Proceeds from sale of loan portfolios		**412.4**	388.4
Operating activities from discontinued operations	18(C)	**-**	(660.7)
Net cash (outflow) from operating activities	5(A)	**(2,297.9)**	(2,990.5)
Cash flows from investing activities			
Payment for intangibles and other assets		**(10.2)**	(10.1)
Payment for business acquired	17(C)	**(76.9)**	–
Net payments for investments		**(0.5)**	(4.0)
Investing activities from discontinued operations	18(C)	**-**	(32.8)
Net cash (outflow) from disposal of businesses		**-**	(219.5)
Net cash (outflow) from investing activities		**(87.6)**	(266.4)
Cash flows from financing activities			
Proceeds from borrowings		**11,403.1**	12,941.2
Repayment of borrowings		**(9,011.5)**	(10,653.5)
Repayment of lease liability		**(8.4)**	(8.3)
Proceeds from issuance of capital		**-**	488.2
Payment of dividends	4(H)(a)	**(63.3)**	–
Financing activities from discontinued operations	18(C)	**-**	913.0
Net cash inflow from financing activities		**2,319.9**	3,680.6
Net (decrease)/increase in cash and cash equivalents		**(65.6)**	423.7
Cash and cash equivalents at the beginning of the financial period		**1,309.2**	885.5
Cash and cash equivalents at end of year	5(A)	**1,243.6**	1,309.2

The above consolidated statement of cash flows includes both continuing and discontinued operations. Amounts related to discontinued operations are disclosed in Note 18(C).

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

Notes to the Consolidated Financial Statements

1. Significant changes in the current reporting period

The financial position and performance of the Group was particularly affected by the following transaction during the reporting period:

- the acquisition of 65% of Stratton Finance Pty Limited on 1 July 2022, which resulted in the recognition of Goodwill (refer to Note 17).

2. General information

The information presented in Note 2 is considered relevant to an understanding of the consolidated financial statements.

A. Reporting entity

These consolidated financial statements are for the consolidated Group ('the Group') consisting of Pepper Money Limited ('Pepper Money' or 'the Company') and its controlled entities and were approved and authorised for issue in accordance with a resolution of the Directors on 23 February 2023.

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.

The principal accounting policies adopted in the preparation of this financial report are set out below or in the accompanying Notes to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

B. Basis of preparation

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

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

The Directors consider the Group able to pay their debts as and when they fall due, and therefore the Group are able to continue as a going concern.

C. Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. Pepper Money Limited is a for-profit entity for the purpose of preparing these financial statements.

Discontinued operations are relevant to CY 2021 only. They are excluded from the results of continuing operations and are presented as a single amount as net profit after income tax from discontinued operations in the prior comparable period of the income statement. The results of discontinued operations are presented separately in the income statement and statement of cash flows.

D. Corporate restructure

A corporate restructure occurred in the prior year. Refer to Note 18 for further details.

E. Critical estimates and judgements

The preparation of the 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 amortised cost through other comprehensive income.

Credit risk on other financial assets held at amortised cost, including cash and cash equivalents and debt investments held at amortised cost, is assessed as low and probability of default negligible. Accordingly, the ECL recognised on these financial assets is immaterial.

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 material 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; and
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 classification 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 Note 2(E))	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 ECL

The following items are the key matters of judgement in estimating ECLs:

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 Group expects to receive, considering cash flows capacity of the borrower (including collateral).

Forward-looking adjustments	Capture estimated impacts of scenario weighted macro-economic assumptions. The Group uses macro-economic factors including unemployment rates, target cash rate and GDP growth rates analysed across four scenarios – base case, upside, downside and severe downside. 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, judgments and analysis.
Post-model overlay adjustments	The Group applies adjustments to the modelled ECL results to ensure that the provision balance is sufficiently responding to changes in credit risk that would not be captured by the above assumptions. Refer to Note 7(B)(c) for further information.

b. Goodwill and intangibles

Goodwill on acquisitions of subsidiaries is included in Goodwill and intangibles. Goodwill and other identifiable intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets are reviewed at least annually to determine whether any indicators of impairment exist, and if necessary, an impairment analysis is performed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (refer to Note 4(G)).

Determining whether goodwill assets are impaired requires an estimation of the value in use of the cash generating units to which the goodwill and other intangible assets with indefinite useful lives have been allocated. The value in use calculation requires Management to estimate both the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, an impairment loss may arise.

Refer to Note 9(B) for further information, including the key assumptions used.

c. Share-based payments valuation

In measuring and recognising various equity-settled share-based payment arrangements, the Group utilises valuation models which require judgement, such as grant date fair value and vesting probability. Refer to Note 10 for further information on the key models and valuation assumptions.

d. Fair value of equity investments

The Group carries its unlisted equity investments at fair value with changes in the fair value recognised in the income statement.

Management undertake valuations of equity investments at each reporting period, at which time Management update their assessment of the fair value of each investment, taking into account the most recent valuation.

F. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. Refer to Note 11(A)(a) for the list of controlled entities (subsidiaries) at 31 December 2022.

The consolidated financial statements incorporate all entities controlled by Pepper Money Limited that are relevant to, and participate in, Pepper Money Limited's Australian and New Zealand business and remain controlled by the Pepper Money Limited Group as at 31 December 2022, and includes Pepper Money Limited's shared service operations in the Philippines.

Control is achieved when Pepper Money Limited:

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

When Pepper Money Limited has less than a majority of the voting rights of an investee, it has power over the investee when its rights are sufficient to give Pepper Money Limited the practical ability to direct the relevant activities of the investee unilaterally. All relevant facts and circumstances are considered in assessing whether or not the rights in an investee are sufficient to give it power, including:

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

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

Each component of comprehensive income is attributed to the owners of the Group.

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

G. Parent entity financial information

The financial information for the parent entity Pepper Money Limited, disclosed in Note 12, has been prepared on the same basis as the consolidated financial statements.

Refer to Note 12 for further information.

H. Foreign currency translation

a. Functional and presentation currency

Items included in the consolidated financial statements of each of the Pepper Money Limited's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars ($), which is Pepper Money Limited's functional and presentation currency.

b. Transactions and balances

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

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

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

c. Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

l. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated exclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

3. Application of new and revised accounting standards

A. New and revised standards in issue but not yet effective

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised AASB standards that have been issued but are not yet effective:

- AASB 17 *Insurance Contracts*, AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts* and AASB 2022-1 *Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information*
- AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* and AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date*
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*
- AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- *Lease Liability in a Sale and Leaseback (Amendments to AASB 16)*
- *Non-current Liabilities with Covenants (Amendments to AASB 101)*

The Directors do not expect that the adoption of the standards listed above will have a material impact on the consolidated financial statements in future years.

B. 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 the year ending 31 December 2022, but do not have a material impact on the consolidated financial statements of the Group.

4. Financial performance

A. Interest income and interest expense

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Interest income:		
Interest from customers	**941.0**	687.9
Bank interest	**14.4**	2.4
Total interest income	**955.4**	690.3
Interest expense:		
Interest expense	**(566.5)**	(323.7)
Net interest income	**388.9**	366.6

Loans and advances are measured on an amortised cost basis on the consolidated statement of financial position. Interest income is recognised over the life of the loan, taking into account all income and expenditure directly attributable to the origination of the loan. The rate at which interest income 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, loan protection fees, mortgage risk fees received at loan settlement and early termination interest adjustments payable upon early redemption of a loan. Transaction costs such as upfront broker commissions paid are also spread across the expected life of the loan in interest income. Interest income is recognised in the income statement by applying the effective interest rate to the net carrying amount of any financial asset classified in Stage 3 for impairment.

Interest expense is also recognised 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. These are transaction costs incurred by the Group in facilitating the issue of debt securities. These costs are amortised to the consolidated statement of profit or loss over the average expected life of the debt securities using the EIR. On a consolidated basis, these costs are included as part of the amortised cost of the debt securities.

B. Non-interest income and expenses

Lending fee income

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Settlement fees	**34.2**	28.3
Post-settlement fees	**36.8**	31.6
Total lending fee income	**71.0**	59.9

Lending fee income include fees other than those that are an integral part of EIR (see Note 4(A)) and include 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 and revenue is recognised.

Lending expense

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Trail commission expense	**(27.4)**	(22.9)
Trustee and other SPV expenses	**(3.2)**	(2.8)
Enforcement costs	**(7.8)**	(5.5)
GST input tax loss	**(4.7)**	(4.3)
Origination expense	**(7.0)**	(7.5)
Other lending expense	**(5.6)**	(4.2)
Total lending expense	**(55.7)**	(47.2)

Lending expenses includes broker trail commission, valuation, trustee, custodian and servicer fees, unrecoverable GST and other lending-related fees which are expensed when incurred.

Servicing fees and other income

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Loan and other servicing income	**8.0**	5.7
Brokerage commissions	**7.6**	–
Volume bonuses and incentives	**5.5**	–
Other income	**8.0**	5.9
Total servicing fees and other income	**29.1**	11.6

Loan and other 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 the Group earns the right to consideration, as identified in the contractual pricing arrangements the Group 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.

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.

The revenue from Stratton's major business activity is recognised as follows:

- Brokerage commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying performance obligations.
- Volume bonuses and incentives are recognised over time as the mandated sales volumes are fulfilled.

C. Disaggregation of revenue from contracts with customers

The below table summarises revenue from contracts with customers recognised under AASB 15 *Revenue from Contracts with Customers* and how this revenue is disaggregated by revenue type and timing of revenue recognition.

The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (refer to Note 4(G)).

	Mortgages		**Asset Finance**		**Loans and Other Servicing**		**Corporate**		**Total**	
Year ended 31 December	**2022 $M**	**2021 $M**	**2022 $M**	**2021 $M**	**2022 $M**	**2021 $M**	**2022 $M**	**2021 $M**	**2022 $M**	**2021 $M**
Revenue Type:										
Lending fee income	**22.6**	18.4	**48.4**	41.4	**–**	0.1	**–**	–	**71.0**	59.9
Whole loan sales income	**8.2**	9.5	**–**	–	**–**	–	**–**	–	**8.2**	9.5
Servicing fees and other income	**1.3**	1.6	**16.6**	1.2	**11.0**	8.8	**0.2**		**29.1**	11.6
Total revenue from contracts with customers	**32.1**	29.5	**65.0**	42.6	**11.0**	8.9	**0.2**	–	**108.3**	81.0
Timing of revenue recognition:										
Service transferred at a point in time	**32.1**	29.5	**59.5**	42.6	**3.0**	3.2	**0.2**	–	**94.8**	75.3
Services transferred over time	**–**	–	**5.5**	–	**8.0**	5.7	**–**	–	**13.5**	5.7
Total revenue from contracts with customers	**32.1**	29.5	**65.0**	42.6	**11.0**	8.9	**0.2**	–	**108.3**	81.0
Lending expense	**(46.2)**	(40.1)	**(9.5)**	(7.2)	**–**	0.1	**–**	–	**(55.7)**	(47.2)
Other operating income as reported in Note 4(G) Segment reporting	**(14.1)**	(10.6)	**55.5**	35.4	**11.0**	9.0	**0.2**	–	**52.6**	33.8

D. Expenses

Employee benefits expense

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Salaries and wages	**(92.8)**	(78.3)
Employee incentive and share-based payments	**(15.5)**	(14.8)
Other personnel expenses	**(5.6)**	(5.2)
Total employee benefits expense	**(113.9)**	(98.3)

Employee benefits expenses are recorded for benefits to employees primarily in respect of wages and salaries, bonuses, share-based payments, annual leave and long service leave and are recognised in respect of employees' services up to the end of the reporting period.

Refer to Note 10 for detail on the share-based payment schemes.

Marketing expense

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Sponsorship and advertising expenses	**(9.6)**	(8.1)
Digital and other marketing expenses	**(4.2)**	(2.7)
Total marketing expense	**(13.8)**	(10.8)

Marketing expenses are expensed when incurred.

Technology expense

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Software licence fees	**(9.2)**	(7.2)
IT hardware, maintenance and support	**(14.6)**	(12.7)
Total technology expense	**(23.8)**	(19.9)

Technology expenses are expensed when incurred.

General and admin expense

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Related party charges	**(0.7)**	(4.6)
Postage, printing and office expenses	**(2.6)**	(1.6)
Professional expenses	**(5.8)**	(12.3)
Travel and entertainment expenses	**(2.0)**	(0.9)
Financing fees and expenses	**(1.7)**	(0.5)
Insurance expenses	**(0.9)**	(0.6)
Occupancy expense	**(1.8)**	(1.0)
ASX listing fee	**–**	(0.7)
Other expenses	**(3.7)**	(3.4)
Total general and admin expense	**(19.2)**	(25.6)

General and administration expenses are expensed when incurred.

As part of the IPO in 2021, various costs were incurred and included Joint Lead Managers' underwriting fees, legal and accounting due diligence fees, tax and structuring advice, associated consulting fees and advisory fees.

Costs incurred that were directly attributable and incremental to the issuance of new equity (net of tax) were 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 related 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 period.

In the year ended 31 December 2021, costs were 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 in the table above:

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

Corporate interest expense

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Corporate debt facility	**(12.4)**	(9.3)
Lease liability interest	**(0.9)**	(1.0)
Total corporate interest expense	**(13.3)**	(10.3)

Corporate interest expenses relate to interest paid on corporate debt facilities measured under the EIR method. Refer to Note 6(B) for further disclosures.

Lease liability interest is recognised on the Group's lease liability. Refer to Note 6(C).

E. Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except where it relates to a business combination, or items recognised in equity or other comprehensive income.

a. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date.

b. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax base used for income tax purposes. Deferred tax assets and liabilities are not recognised in respect of temporary differences 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;
- investments in subsidiaries, associates and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- the initial recognition of goodwill.

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

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become 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 periods in which the temporary differences reverse, 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 deferred tax assets against deferred tax liabilities and the Group intends to settle them on a net basis.

(i) Income tax recognised in profit or loss	Year ended 31 December 2022 $M	Year ended 31 December 2021 $M
Current tax		
Current tax expense in respect of the current year	**60.6**	59.5
Adjustments recognised in the current year in relation to the current tax of prior years	**(2.7)**	(2.2)
Total current tax expense	**57.9**	57.3
Deferred tax		
Deferred tax expense/(benefit) recognised in the current year	**0.6**	(3.5)
Adjustments recognised in the current year in relation to the deferred tax of prior years	**2.7**	1.8
Total deferred tax expense/(benefit)	**3.3**	(1.7)
Total income tax expense recognised in the current year relating to continuing operations	**61.2**	55.6
Total income tax expense recognised in the current year relating to discontinued operations	**–**	(2.6)
Total income tax expense recognised in the current year	**61.2**	53.0

(ii) The income tax expense for the year can be reconciled to the accounting profit as follows:	Year ended 31 December 2022 $M	Year ended 31 December 2021 $M
Profit from continuing operations before income tax expense	**201.7**	186.3
Tax at the Australian tax rate of 30.0% (2021 – 30.0%)	**60.5**	55.9
Effect of different tax rates of operations in foreign jurisdictions	**(0.5)**	(0.1)
Effect of expenses that are not deductible in determining taxable profit	**1.2**	0.1
	61.2	55.9
Adjustments recognised in current year in relation to income tax of prior years	**–**	(0.3)
Income tax expense	**61.2**	55.6

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

The balances below represent continuing operations.

(iii) Deferred tax balance movements	As at 31 December 2022 $M	 31 December 2021 $M
Opening balance	**37.5**	52.3
Adjustment for prior periods	**(2.7)**	(1.8)
Adjusted opening balance	**34.8**	50.5
Current year tax recognised in the statement of profit or loss	**(0.6)**	3.5
Current year tax recognised in other comprehensive income	**(34.7)**	(13.5)
Deferred tax balances acquired in business combination	**2.0**	–
Deferred tax on intangibles acquired in business combination	**(7.6)**	–
Others	**–**	(3.0)
Closing balance	**(6.1)**	37.5

(iv) Deferred tax balances	As at 31 December 2022 $M	 31 December 2021 $M
Breakdown of closing balance as follows:		
Employee expenses	**5.8**	7.0
Provisions	**0.2**	1.3
Deferred expenses	**(6.9)**	(3.7)
Loan loss provisions and other doubtful debts	**36.5**	33.1
Other financial assets	**(0.4)**	(0.8)
Derivatives	**(38.3)**	(3.6)
Recognition of tax assets relating to tax losses	**4.4**	2.7
Recognition of tax liabilities relating to intangibles in business combination	**(7.6)**	–
Other	**0.2**	1.5
	(6.1)	37.5
Deferred tax balances are presented in the balance sheet as follows:		
Deferred tax assets	**4.0**	37.5
Deferred tax liabilities	**(10.1)**	–
	(6.1)	37.5

A deferred tax asset has not been recognised for $2.2 million of unused capital losses carried forward in Australia (2021: $2.2 million).

c. Australian tax consolidated group

Pepper Money Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation for Australian income tax purposes. The deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

The head entity, Pepper Money Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax company continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Pepper Money Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax sharing and funding agreement under which the wholly-owned entities fully compensate Pepper Money Limited for any current tax payable assumed and are compensated by Pepper Money Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Pepper Money Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' stand alone financial statements.

Assets or liabilities arising under the tax sharing and funding agreement with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax sharing and funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Stratton Finance Pty Limited and its wholly-owned Australian entities have formed a separate Australian income tax consolidated group.

F. 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 during the period.

b. EPS calculation inputs

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Profit from continuing operations attributable to ordinary equity holders of the Group	**140.5**	130.7
Weighted average number of ordinary shares (WANOS) used in the calculation of basic EPS (millions of shares)	**439.6**	359.4
Dilutive effect of share options (millions of shares)	**8.8**	4.4
WANOS used in the calculation of diluted shares (millions of shares)	**448.4**	363.8
Profit/(loss) from discontinued operations attributable to ordinary equity holders of the Group	**–**	182.2
WANOS used in the calculation of basic EPS (millions of shares)	**439.6**	359.4
Dilutive effect of share options (millions of shares)	**8.8**	4.4
WANOS used in the calculation of diluted shares (millions of shares)	**448.4**	363.8

Calculation of WANOS

Year ended 31 December 2022 (439,636,638)

- From 1 January 2022 to 11 March 2022 (84,288,804) the number of ordinary shares on issue 439,505,908 multiplied by the ratio of days outstanding (70/365); plus
- From 11 March 2022 to 30 September 2022 (244,526,056) the number of ordinary shares on issue 439,665,076 multiplied by the ratio of days outstanding (203/365); plus
- From 30 September 2022 to 1 December 2022 (73,479,539) the number of ordinary shares on issue 439,672,649 multiplied by the ratio of days outstanding (61/365); plus
- From 1 December 2022 to 22 December 2022 (26,500,865) the number of ordinary shares on issue 439,673,434 multiplied by the ratio of days outstanding (22/365); plus
- From 22 December 2022 to 31 December 2022 (10,841,374) the number of ordinary shares on issue net of Treasury shares and share options 439,677,986 multiplied by the ratio of days outstanding (9/365).

Year ended 31 December 2021 (359,372,319)

- From 1 January 2021 to 25 May 2021 (100,081,384) the number of ordinary shares on issue 251,929,000 multiplied by the ratio of days outstanding (145/365); plus
- From 25 May 2021 to 31 December 2021 (259,290,935) the number of ordinary shares on issue net of Treasury shares and share options 430,187,233 multiplied by the ratio of days outstanding (220/365).

Calculation of dilutive effect

Year ended 31 December 2022 (8,826,111)

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 less 71,265 shares repaid during the period), 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 4,551,489 multiplied by the ratio of days outstanding (283/365). See Note 11(A)(c) for further details on the loans provided to Management.

In addition, the following share options were on issue at the end of the period and have an impact on the dilutive EPS:

- 210,568 service rights share options on issue multiplied by the ratio of days outstanding (365/365)
- 952,037 service rights share options on issue multiplied by the ratio of days outstanding (201/365)
- 1,520,259 executive rights share options on issue multiplied by the ratio of days outstanding (365/365)
- 3,514,794 executive rights share options on issue multiplied by the ratio of days outstanding (234/365)
- 553,911 STIP restricted rights share options on issue multiplied by the ratio of days outstanding (234/365)
- 309,590 share save plan share options multiplied by the ratio of days outstanding (365/365)
- 39,359 share save plan share options multiplied by the ratio of days outstanding (334/365)
- 42,573 share save plan share options multiplied by the ratio of days outstanding (275/365)
- 2,836 share save plan share options multiplied by the ratio of days outstanding (262/365)
- 72,671 share save plan share options multiplied by the ratio of days outstanding (184/365)
- 7,852 share save plan share options multiplied by the ratio of days outstanding (108/365)
- 59,287 share save plan share options multiplied by the ratio of days outstanding (92/365)

Year ended 31 December 2021 (4,448,370)

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 (220/365). See Note 11(a)(c) for further details on the loans provided to Management.

In addition, the following share options were on issue at the end of the period and have an impact on the dilutive EPS:

- 240,855 service rights share options on issue multiplied by the ratio of days outstanding (98/365)
- 4,294,399 executive rights and IPO SARs share options on issue multiplied by the ratio of days outstanding (98/365)
- 159,168 NED equity share options on issue multiplied by the ratio of days outstanding (81/365)

Whilst the following schemes were not granted as at 31 December 2021, the service period commenced in CY2021 and as such, they are included within the dilutive EPS calculation:

- 391,913 deferred short term variable remuneration ("STVR") share options multiplied by the ratio of days outstanding (365/365)
- 64,388 share save plan share options multiplied by the ratio of days outstanding (92/365).

c. Basic earnings per share

	Year ended	
	31 December 2022 Cents	**31 December 2021 Cents**
Basic EPS from continuing operations	**31.97**	36.38
Basic EPS from discontinued operations	–	50.71
Total basic EPS attributable to the ordinary equity holders of the Group	**31.97**	87.09

d. Diluted earnings per share

	Year ended	
	31 December 2022 Cents	**31 December 2021 Cents**
Diluted EPS from continuing operations	**31.34**	35.93
Diluted EPS from discontinued operations	–	50.09
Total diluted EPS attributable to the ordinary equity holders of the Group	**31.34**	86.02

G. 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 have 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 Group's 65% owned subsidiary Stratton is included within this segment given common customer base and revenue and cost synergies.
- 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).

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. Inter-segment revenue is immaterial to the Group and all revenue is derived from external customers.

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

Year ended 31 December 2022	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
Interest income	700.2	254.8	(0.2)	0.6	955.4
Interest expense	(432.7)	(133.8)	–	–	(566.5)
Net interest income	267.5	121.0	(0.2)	0.6	388.9
Other operating income	(14.1)	55.5	11.0	0.2	52.6
Loan losses	(6.6)	(26.9)	0.2	–	(33.3)
Total segment reporting income	246.8	149.6	11.0	0.8	408.2
Corporate costs	–	–	–	(172.8)	(172.8)
Depreciation and amortisation	–	–	–	(20.4)	(20.4)
Corporate interest expense	–	–	–	(13.3)	(13.3)
Profit before income tax	246.8	149.6	11.0	(205.7)	201.7
Income tax expense	–	–	–	(61.2)	(61.2)
Net profit after tax from continuing operations	246.8	149.6	11.0	(266.9)	140.5

Year ended 31 December 2021	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
Interest income	503.6	187.2	(0.6)	0.1	690.3
Interest expense	(238.6)	(85.1)	–	–	(323.7)
Net interest income	265.0	102.1	(0.6)	0.1	366.6
Other operating income	(10.6)	35.4	9.0	–	33.8
Loan losses	1.7	(26.7)	0.4	–	(24.6)
Total segment reporting income	256.1	110.8	8.8	0.1	375.8
Corporate costs	–	–	–	(154.7)	(154.7)
Depreciation and amortisation	–	–	–	(24.5)	(24.5)
Corporate interest expense	–	–	–	(10.3)	(10.3)
Profit before income tax	256.1	110.8	8.8	(189.4)	186.3
Income tax expense	–	–	–	(55.6)	(55.6)
Net profit after tax from continuing operations	256.1	110.8	8.8	(245.0)	130.7

b. Segment balance sheet

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

As at 31 December 2022	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
Segment assets	**14,094.9**	**4,785.0**	**1.2**	**1,038.3**	**19,919.4**
Segment liabilities	**(14,094.9)**	**(4,785.5)**	**(1.2)**	**(172.0)**	**(19,053.6)**
Current tax asset/(liability)	**–**	**0.7**	**–**	**(25.2)**	**(24.5)**
Total	**–**	**0.2**	**–**	**841.1**	**841.3**
As at 31 December 2021					
Segment assets	13,033.8	3,613.3	1.1	620.0	17,268.2
Segment liabilities	(13,033.8)	(3,613.3)	(1.1)	55.6	(16,592.6)
Current tax asset/(liability)	–	–	–	(39.2)	(39.2)
Total	–	–	–	636.4	636.4

The Corporate division represents the Group's support functions not specifically aligned to business operations in the other divisions listed above (specifically Finance, Treasury, 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.

The Asset Finance segment includes Stratton Finance Pty Limited, which has a current tax asset position in CY2022 for its standalone tax consolidated group (refer Note 4(E)(c)).

H. Dividends

a. Declared and paid during the reporting period

	Year ended 31 December 2022 $M	Year ended 31 December 2021 $M
Final dividend for CY2021: $0.09 (CY2020: Nil)	**39.6**	–
Interim dividend for CY2022: $0.054 (CY2021: Nil)	**23.7**	–
Total	**63.3**	–

All dividends were fully franked at 30%.

b. Proposed dividends not recognised as a liability at the end of the reporting period

	Year ended 31 December 2022 $M	Year ended 31 December 2021 $M
Final dividend for CY2022: $0.051 (CY2021: $0.09)	**22.4**	39.8

The final dividend recommended after 31 December 2022 will be fully franked at 30%.

c. Franking credits

	Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Franking credits available for future years at 30%, adjusted for the payment of income tax and dividends payable or receivable	**72.0**	54.1
Impact on the franking account of dividends proposed before the financial report was issued, but not recognised as a distribution to equity holders during the year	**(9.6)**	(17.0)

The above amounts are calculated from the balance of the franking account as at the end of the reporting year, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the year.

5. Financial assets

A. Cash and cash equivalents

Cash and cash equivalents comprise the Group's unrestricted cash (i.e. cash at bank and 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. Restricted cash is not available for operational use.

	As at	
	31 December 2022 $M	**31 December 2021 $M**
Cash at bank	**114.3**	129.4
Restricted cash	**1,129.3**	1,179.8
Total cash and cash equivalents	**1,243.6**	1,309.2

ii. Reconciliation of profit after tax for the year to net cash flows from operating activities	Year ended 31 December 2022 $M	Year ended 31 December 2021 $M
Net profit after income tax from continuing operations	**140.5**	130.7
Profit from discontinued operations	**–**	182.2
Net profit after income tax	**140.5**	312.9
Non-cash items:		
Depreciation and amortisation expense	**20.4**	24.5
Amortisation of debt issuance transaction costs	**44.7**	18.1
Loan loss expense	**33.3**	24.6
Amortisation of loan origination fees and commissions	**61.9**	58.7
Employee benefits and share based-payment expenses	**4.5**	11.2
Other non-cash operating items	**(0.8)**	0.7
Deferred tax expense/(benefit)	**3.3**	(1.7)
Total non-cash items	**167.3**	136.1
Profit from discontinued operations	**–**	(182.2)
Net profit after non-cash items	**307.8**	266.8
Cash movements in:		
Receivables	**(5.6)**	(2.2)
Loans and advances	**(2,583.7)**	(2,578.7)
Other assets	**(1.9)**	(3.2)
Trade payables	**2.3**	(4.0)
Other liabilities	**6.5**	7.2
Borrowings	**(6.7)**	(3.6)
Property, plant and equipment	**(2.1)**	(13.5)
Current tax liability	**(14.5)**	1.4
Operating activities from discontinued operations	**–**	(660.7)
Total cash movements in assets and liabilities	**(2,605.7)**	(3,257.3)
Total operating cash movements	**(2,297.9)**	(2,990.5)

	Issued Capital $M	Borrowings $M	Lease liability (in Other liabilities) $M	Total $M
	Reconciliation of Financing Activities			
As at 31 December 2021	729.3	16,517.2	10.6	17,257.1
Financing cash flow	–	2,391.7	(8.4)	2,383.3
Non-cash movements	–	(94.5)	(1.0)	(95.4)
Other cash movements	0.3	164.8	17.0	182.1
As at 31 December 2022	**729.6**	**18,979.2**	**18.2**	**19,727.0**

B. Gross loans and advances

	As at 31 December 2022 $M	As at 31 December 2021 $M
Gross loans and advances		
Loans and advances	**18,278.4**	15,807.5
Deferred transaction costs	**242.6**	200.5
Mortgage risk fee	**(71.0)**	(77.3)
Provision for loan impairment	**(122.2)**	(110.9)
	18,327.8	15,819.8
Provision for loan impairment		
Specific provision	**(29.8)**	(19.1)
Collective provision	**(92.4)**	(91.8)
	(122.2)	(110.9)
Specific provision		
Opening balance	**(19.1)**	(20.9)
Provided for during the year	**(32.7)**	(20.5)
Loans previously provided for written-off or sold	**22.0**	22.3
Specific provision closing balance	**(29.8)**	(19.1)
Collective provision		
Opening balance	**(91.8)**	(87.7)
Provided for during the year	**(0.6)**	(4.1)
Collective provision closing balance	**(92.4)**	(91.8)

Accounting policy

Initial recognition

Loans and advances are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions. Loans and advances are initially measured at fair value plus transaction costs directly attributable to the origination of the loans. Refer to Note 2(E)(a) for further information.

Classification

The classification of financial assets depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. Loans and advances are measured at amortised cost if both of the following conditions are met:

- they 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 each contract give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Transaction costs include broker fees and commissions capitalised on the balance sheet as part of loans and advances. These costs are amortised to the consolidated income statement in line with the reduction in the underlying mortgage portfolio as part of the effective interest rate.

Derecognition

Loans and advances are derecognised when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantively all of the risks and rewards of ownership are transferred (eg. a whole loan sale) or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control.

Upon derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised as a gain or loss on the consolidated income statement.

C. Other financial assets

Other financial assets comprise of several 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.

	As at	
	31 December 2022 $M	**31 December 2021 $M**
Equity investments held at FVTPL	**19.2**	20.8
Debt investments held at FVTPL	**–**	1.9
Debt investments held at amortised cost	**0.2**	0.3
Total other financial assets	**19.4**	23.0

Equity Investments

The Group holds equity investments in several private companies that are not traded in an active market. These investments were designated on initial recognition at FVTPL and are disclosed at fair value at the end of each reporting period.

Debt Investments

The Group's debt investments include a debt investment measured at amortised cost and several debt investments designated at FVTPL which were fully derecognised during the year.

6. Financial liabilities

A. Provisions

	As at 31 December 2022			As at 31 December 2021		
	<12 months $M	>12 months $M	Total $M	<12 months $M	>12 months $M	Total $M
Bonus and other employee benefits	**18.5**	**4.7**	**23.2**	20.9	3.3	24.2
Provisions	**1.6**	**–**	**1.6**	2.6	–	2.6
Total	**20.1**	**4.7**	**24.8**	23.5	3.3	26.8

a. Accounting policy

Provisions are recognised when:

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

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

b. Employee benefits

Employee benefit liabilities are recognised for benefits accruing to employees predominantly in respect of wages and salaries, bonuses, annual leave and long service leave and are recognised in respect of employees' services up to the end of the reporting period. Bonuses are dependent upon the financial performance of the Group.

The measurement of such employee benefit liabilities is as follows:

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

B. Borrowings

All borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing borrowings are measured at amortised cost using the effective interest rate method.

	As at	
	31 December 2022 $M	31 December 2021 $M
Non-recourse facilities	**18,698.4**	16,375.9
Government structured finance	**13.4**	20.1
Corporate debt facilities	**267.4**	121.2
Total borrowings	**18,979.2**	16,517.2

Non-recourse facilities are secured on the assets of each of the individual trusts. Refer to Note 7(B)(f) for more detail.

Corporate debt facilities secured over certain assets of the Group were also in place in the year ended 31 December 2021 and the year ended 31 December 2022.

In 2021, 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 31 December 2022, $145.0 million is drawn down on the total facility of $200.0 million (2021: $50.0 million).

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.

Under a debt issuance programme established in October 2021, the Group has issued three tranches of floating rate notes. As at 31 December 2022, the value of outstanding notes was $120.0 million (2021: $70.0 million). These notes carry a floating interest rate at 3-month BBSW plus a margin. Transaction costs directly attributable to the notes have been capitalised and are amortised over the facility term.

C. Other liabilities

	As at	
	31 December 2022 $M	**31 December 2021 $M**
Deferred consideration and other liabilities	**4.2**	8.5
Lease-related liabilities	**16.5**	8.7
Other provisions	**1.7**	1.9
Trail commissions payable to third parties	**0.4**	0.8
Total other liabilities	**22.8**	19.9

The Group assesses at contract inception whether a contract is, or contains, a lease. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

The Group recognises a right-of-use asset as part of Property, Plant and Equipment at the lease commencement date. The right-of- use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of make-good costs. Right-of-use assets are depreciated using the straight-line method over the expected useful lives. Refer to Note 9(A).

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The below table summarises the Group's remaining expected maturity for its non-derivative financial liabilities with agreed repayment periods and specifically relates to lease liabilities.

The table details the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay and hence will not necessarily reconcile with the amounts disclosed in the consolidated statement of financial position. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	As at	
	31 December 2022 $M	**31 December 2021 $M**
Not later than 1 year	**7.2**	5.3
Later than 1 year	**13.4**	2.7
Total commitments	**20.6**	8.0

7. 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:

			As at	
	Fair value hierarchy	**Valuation technique and key inputs**	**31 December 2022 $M**	**31 December 2021 $M**
Equity investments at FVTPL	Level 2	Recent arms' length market transaction	**19.2**	20.8
Debt investments at FVTPL	Level 2	Discounted cash flow, forward interest rates, contract interest rates, appropriate discount rates	**–**	1.9
Derivative financial assets and liabilities	Level 2	Discounted cash flow, forward interest rates, contract interest rates, counterparty valuations	**130.7**	6.2
Total			**149.9**	28.9

In the period to 31 December 2022 there has been no change in the fair value hierarchy or the valuation techniques applied to any of the balances above.

Fair value of financial 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.

Management consider that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements approximate their fair value.

B. Financial risk management

a. Overview

The Group has exposure to those risks associated with most financial services organisations. The more notable risks are as follows:

Risk	Exposure arising from	Measurement
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments, loans and advances.	Credit risk analysis, Credit ratings.
Market risk – foreign exchange	Future commercial transactions, recognised foreign currency financial assets and liabilities.	Cash flow forecasting, Sensitivity analysis.
Market risk – interest rate	Mismatch in interest rates between assets and liabilities.	Sensitivity analysis.
Market risk – equity price risk	Exposure to movements in enterprise value of investees.	Sensitivity analysis.
Liquidity risk	Borrowings, derivative financial liabilities and other liabilities.	Rolling cash flow forecasts.
Compliance and operational risks	Obligations under license, regulatory or statutory conditions and the design and execution of business operations.	Risk and control assessment, Incident management.

Roles and responsibilities

The Board is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has established and has oversight of the Group's Risk Management Program, which includes operating within the Board-approved Risk Appetite.

The Group's Risk Management Program focuses on the unpredictability of financial markets and the effectiveness of controls to manage risks in a way which seeks to minimise potential adverse effects on the financial performance and reputation of the Group. The Group's Risk Management Program leverages the 'Three Lines of Accountability' model that ensures there is independent oversight of business activities and process by the Group Risk and Compliance function, and Internal and External Audit.

The Board has established an Audit and Risk Committee ('ARC') which is responsible for managing financial risk as follows:

- Identifying and monitoring the emerging and changing risk profile of Group;
- Ensuring that risk activities are governed by appropriate policies and procedures and that financial risks are identified; and
- Reviewing the adequacy and effectiveness of internal systems, controls and procedures managing risks faced by the Group.

The Board and ARC are supported by the following management committees:

- Executive Risk Committee;
- Credit Committee;
- Asset and Liability Committee;
- Continuous Disclosure Committee; and
- Product and Pricing Committee.

Reporting

Monitoring and controlling risk is primarily based on limits established by the Board and ARC. The Chief Financial Officer and Chief Risk Officer report regularly to the Board and ARC.

b. Credit risk

Credit risk is the risk that a counterparty will not meet its contractual obligations leading to a financial loss. The Group's primary credit risk exposures relate to its lending activities in its mortgage and asset finance portfolios.

The Board of Directors is responsible for determining the Group's overall appetite for credit risk and monitoring the quality and performance of the mortgage and asset finance portfolios.

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

		Relative credit quality of assets	
31 December 2022 $M	**Maximum exposure to credit risk**	**Rated***	**Unrated**
Cash and cash equivalents	1,243.6	Investment grade	–
Derivative financial instruments	134.0	Investment grade	–
Gross Mortgages loans and advances (including undrawn facilities)	15,073.6	–	
LVR Band 90%+			262.0
LVR Band 75-90%			4,768.5
LVR Band 60-75%			4,389.4
LVR Band <60%			5,653.7
Gross Asset Finance loans and advances	4,766.9	–	
Commercial			2,508.4
Consumer			2,258.5
Receivables	10.3	–	10.3
Other financial assets	0.2	–	0.2
Total	**21,228.5**	**–**	**19,851.0**

31 December 2021 $M	Maximum exposure to credit risk	Relative credit quality of assets Rated*	Unrated
Cash and cash equivalents	1,309.2	Investment grade	–
Derivative financial instruments	23.7	Investment grade	–
Gross Mortgages loans and advances (including undrawn facilities)	13,587.9	–	
LVR Band 90%+			372.6
LVR Band 75-90%			4,751.1
LVR Band 60-75%			3,881.7
LVR Band <60%			4,582.5
Gross Asset Finance loans and advances	3,525.3	–	
Commercial			1,639.0
Consumer			1,886.3
Receivables	9.4	–	9.4
Other financial assets	2.2	–	2.2
Total	**18,457.7**	**–**	**17,124.8**

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

As at 31 December 2022 the Group had $1,566.6 million of undrawn customer facilities (2021: $1,247.6 million).

Undrawn customer commitments and redraw balances which can be cancelled at any time by the Group, 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.

Collateral valuations are obtained at origination. Collateral valuations are updated in limited circumstances, such as when the Group becomes a mortgagee in possession.

II. Analysis of loans and advances by past due status

The table below provides an analysis of the gross carrying amount of loans and advances by past due status that are over 30 days past due:

	Loans and advances ($M) 31 December 2022			Loans and advances ($M) 31 December 2021		
Days in arrears	**Mortgages**	**Asset Finance**	**Total**	**Mortgages**	**Asset Finance**	**Total**
0 days and <30 days	**13,341.9**	**4,616.9**	**17,958.8**	12,079.7	3,444.8	15,524.5
30 days and less than 90 days	**218.7**	**91.9**	**310.6**	31.0	53.1	84.1
90 days and less than 180 days	**78.3**	**25.8**	**104.1**	119.4	6.8	126.2
180 days and less than 365 days	**34.4**	**10.5**	**44.9**	27.2	0.7	27.9
365 days and over	**22.7**	**8.9**	**31.6**	41.6	3.2	44.8
Total	**13,696.0**	**4,754.0**	**18,450.0**	12,298.9	3,508.6	15,807.5

c. Expected credit loss provisions

Macroeconomic scenarios

The provision coverage of the Group has been strengthened via forward looking adjustments for macro-economic assumptions. The ECL model includes macroeconomic forecasts detailed in the table below representing the Group's view of future economic conditions. The Group applies four alternative macroeconomic scenarios (base case, upside, downside and severe downside) to reflect unbiased, probability-weighted ranges of possible future outcomes in estimating ECL. As at 31 December 2022 the weighting applied to each of these scenarios was as follows:

- Base case scenario (60%) – considers economist's and RBA forecasts as well as the Group's base case assumptions used in Management's strategic planning and forecasting. When compared to 31 December 2021, Management have reduced the weighting applied to the base case scenario by 10%.
- Upside scenario (5%) – considers the potential impact of more favourable economic conditions which are less likely to occur than in the base scenario.
- Downside scenario (30%) – considers the potential impact of possible, but less likely, adverse macroeconomic conditions. When compared to 31 December 2021, Management have applied an additional 10% weighting to the downside scenario.
- Severe downside scenario (5%) – considers the potential impact of remote, severe and extremely adverse macroeconomic conditions.

The table below summarises the macroeconomic variables used in the base case, upside and downside scenarios as at 31 December 2022. Macroeconomic variables are not used for the severe downside scenario and hence are excluded from the below table. Rather, multipliers are derived qualitatively from stress test results and by comparison to other scenarios.

	CY2022					
	Upside case (5%)		**Base case (60%)**		**Downside case (30%)**	
	Mortgages	**Asset Finance**	**Mortgages**	**Asset Finance**	**Mortgages**	**Asset Finance**
Macroeconomic variable:						
GDP (annual % change)	**2.0%**	**N/A**	**1.5%**	**N/A**	**1.0%**	**N/A**
GDP (quarter on quarter % change)	**N/A**	**0.8%**	**N/A**	**0.6%**	**N/A**	**0.4%**
Unemployment rate (%)	**N/A**	**3.9%**	**N/A**	**4.0%**	**N/A**	**4.3%**
Cash rate (%)	**3.4%**	**N/A**	**3.6%**	**N/A**	**4.0%**	**N/A**

Post-model overlay adjustments

	Mortgages		Asset Finance		Total	
	31 December 2022 $M	31 December 2021 $M	31 December 2022 $M	31 December 2021 $M	31 December 2022 $M	31 December 2021 $M
Management overlay	**(13.0)**	(13.0)	**–**	(2.0)	**(13.0)**	(15.0)
Targeted model recalibration	**–**	–	**(6.8)**	(16.7)	**(6.8)**	(16.7)
Total	**(13.0)**	(13.0)	**(6.8)**	(18.7)	**(19.8)**	(31.7)

The post-model overlay adjustments comprise of a management overlay and targeted model recalibration:

Management overlay

As at the reporting date, the Group retained a management overlay by applying adjustments to the modelled ECL results to ensure that the provision balance is sufficiently responding to both known and potential changes in credit risk that would not be captured by the ECL model assumptions (i.e. the ECL model is deemed insufficient provision coverage).

The management overlay includes a “model risk” overlay to account for potential errors in the development and implementation of any of the quantitative elements supporting the ECL model.

Targeted model recalibration

In 2021, the Group undertook a recalibration of the risk rating methodology for the asset finance portfolio. Prima facie, the recalibration led to a reduction in the modelled ECL. The Group has recognised a $6.8 million (2021: $16.7 million) overlay to adjust for economic uncertainty and ongoing validation of the newly modelled ECL.

Management continue to assess the level of provision coverage on a monthly basis and all overlays are reviewed and approved by the Board and Management at each reporting date.

d. Sensitivity of provisions

As mentioned above, the Group applies four alternative macroeconomic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL.

The below table provides approximate levels of provisions for impairment under the Base and Downside scenarios for the Group. It assumes 100% weighting was applied to each scenario and holding all other assumptions constant.

These scenarios and their associated weights have been selected based on the expected range of potential future loss outcomes.

	As at	
	31 December 2022 $M	31 December 2021 $M
Reported probability-weighted ECL	**65.1**	51.4
100% base case scenario	**57.1**	46.3
100% downside scenario	**76.5**	62.6

Sensitivity of provisions for impairment to SICR assessment criteria

If 1% of Stage 1 credit exposures as at 31 December 2022 was included in Stage 2, provisions for impairment would increase by approximately $1.7 million (2021: $1.2 million).

If 1% of Stage 2 credit exposures as at 31 December 2022 was included in Stage 1, provisions for impairment would decrease by approximately $0.03 million (2021: $0.01 million).

e. 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 year ended 31 December 2022 and year ended 31 December 2021.

Deferred transaction costs, mortgage risk fee and loans and advances are incorporated in 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 2022	15,626.6	134.5	169.6	15,930.7
Transfer to Stage 1	106.0	(71.5)	(34.5)	–
Transfer to Stage 2	(188.2)	194.3	(6.1)	–
Transfer to Stage 3	(101.3)	(22.6)	123.9	–
Financial assets that have been derecognised during the period	(4,706.8)	(46.8)	(62.6)	(4,816.2)
New financial assets originated	7,974.8	80.2	26.5	8,081.5
Net repayments and interest for the period	(727.8)	(3.6)	(14.6)	(746.0)
Gross carrying amount as at 31 December 2022	17,983.3	264.5	202.2	18,450.0

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 2022	45.0	1.5	32.7	79.2
Transfer to Stage 1	4.2	(0.9)	(3.3)	–
Transfer to Stage 2	(0.6)	1.2	(0.6)	–
Transfer to Stage 3	(0.4)	(0.3)	0.7	–
Financial assets that have been derecognised during the period	(6.7)	(0.5)	(9.3)	(16.5)
New financial assets originated	26.3	2.1	6.1	34.5
Net repayments and interest for the period	(11.6)	0.1	16.7	5.2
Total	56.2	3.2	43.0	102.4
Post-model overlay adjustments	–	–	–	19.8
Loss allowance as at 31 December 2022	56.2	3.2	43.0	122.2

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	179.6	(136.1)	(43.5)	**-**
Transfer to Stage 2	(113.6)	121.7	(8.1)	**-**
Transfer to Stage 3	(62.7)	(25.6)	88.3	**-**
Financial assets that have been derecognised during the period	(3,875.9)	(76.4)	(66.8)	**(4,019.1)**
New financial assets originated	7,162.2	23.9	10.2	**7,196.3**
Net repayments and interest for the period	(662.4)	(4.4)	0.9	**(665.9)**
Gross carrying amount as at 31 December 2021	15,626.6	134.5	169.6	**15,930.7**

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	5.5	(1.3)	(4.2)	**-**
Transfer to Stage 2	(0.5)	1.1	(0.6)	**-**
Transfer to Stage 3	(0.3)	(0.2)	0.5	**-**
Financial assets that have been derecognised during the period	(6.9)	(0.8)	(8.8)	**(16.5)**
New financial assets originated	25.4	1.2	2.5	**29.1**
Net repayments and interest for the period	(27.0)	(0.8)	8.8	**(19.0)**
Total	45.0	1.5	32.7	**79.2**
Post-model overlay adjustments	–	–	–	**31.7**
Loss allowance as at 31 December 2021	45.0	1.5	32.7	**110.9**

The value of the collateral held as security for loans in the Stage 1, Stage 2 and Stage 3 collective provision as at 31 December 2022 is $24.5 billion (2021: $21.5 billion).

The value of the collateral held as security for loans in Stage 3 specific provision as at 31 December 2022 is $6.7 million (2021: $4.4 million).

f. 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.

The Group is required to invest in Credit Risk Retention ('CRR') Securities to meet CRR requirements of regulatory agencies in various investor jurisdictions. Specific debt financing arrangements are entered into by the Group with banks or other investors in order to fund the acquisition of these CRR Securities. These borrowings are full recourse to the Group to the extent that payments or proceeds are insufficient to cover the Group's obligations under the debt financing arrangements.

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

	As at	
	31 December 2022 $M	**31 December 2021 $M**
Investments in trust notes	**477.1**	411.7
Cash collateral	**82.3**	76.6
	559.4	488.3
CRR obligations	**752.4**	751.0
Total exposure	**1,311.8**	1,239.3

g. Market risk

Market risk is the risk of an adverse impact on the Group's earnings resulting from changes in market factors, including interest rates, foreign exchange rates and equity prices. Financial instruments affected by market risk include loans and borrowings, debt, equity investments and derivative financial instruments.

i. Interest rate risk

Interest rate exposure is created due to mismatches in interest rates between assets and liabilities (i.e. borrowing at floating interest rates and lending with fixed interest rates). Interest rate risk may be managed by entering into interest rate swaps subject to the Group's hedging and derivatives policies.

Of the portfolio of $18.3 billion as at 31 December 2022 (2021: $15.8 billion), $4.7 billion is made up of loans and advances with fixed interest rates (2021: $3.4 billion) that are subject to interest rate risk.

Interest rate risk is managed by the Group by the use of interest rate swap contracts, in accordance with the Group's hedging and derivative policies, where the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the cash flow exposures on interest rates and the fair value risk of changing interest rates.

The Group designates the interest rate swaps as cash flow hedges and fair value hedges.

Sensitivity analysis

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

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

	Impact on pre-tax profit +/- Year ended	
	31 December 2022 $M	**31 December 2021 $M**
Loans and advances in special purpose entities	**17.1**	14.6
Borrowing costs in special purpose entities	**18.8**	15.6

ii. Foreign currency risk

The Group's financial reports are prepared in Australian dollars. The Group's revenues, expenses, cash flows, assets and liabilities in regions outside Australia are denominated in local currencies which include the New Zealand Dollar and Philippines Peso. The Group is exposed to exchange rate fluctuations relating to non-Australian dollar borrowings as well as its investments in foreign operations. The Group manages its foreign exchange risk by matching the currency of loan receivables and funding and by monitoring the cash flow requirements of the business on an ongoing basis. The Group also uses cross currency interest rate swap contracts to hedge fair value interest rate risk and foreign exchange risk when debt is issued in foreign currencies.

The Group hedges exposure to foreign currency risks with derivative instruments such that at 31 December 2022 there is no sensitivity to movements in foreign exchange rates. There is no material unhedged foreign exchange exposure as at 31 December 2022.

The Group does not currently hedge its offshore earnings or the capital invested in the overseas operations, thereby accepting the foreign currency translation risk on capital and offshore earnings.

iii. Equity price risk

The Group's equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through performing pre-acquisition due diligence on investees, ensuring strategic alignment with the Group's objectives and actively monitoring the ongoing financial performance of investees against budgets. The Group's Board of Directors reviews and approves all equity investment decisions.

The Group has determined that an increase/(decrease) of 10% could have an impact of approximately $1.9 million increase/(decrease) on the income and equity (2021: $2.1 million).

h. Derivatives and hedge accounting

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

Accounting policy

Initial recognition and ongoing measurement

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, adjusted for those derivatives in designated hedge relationships, as described below.

Netting of derivative financial assets and liabilities

The Group currently has a legally enforceable right under an ISDA master agreement in place to net off the derivative assets and liabilities where they relate to the same trust and counterparty. Derivative payments and settlements are done on a net basis where they relate to the same trust and counterparty and the Group intend to continue this netting arrangement.

Hedge accounting

The Group 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.

At the inception of a hedge relationship, the Group 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, the Group 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 the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group has applied the hedge ratio of 1:1 to all hedge relationships.

Treatment of gains or losses

The fair value gain or loss associated with the effective portion of derivatives that are designated and qualify as cash flow hedges is recognised initially in other comprehensive income and then recycled to the income statement in the same periods the hedged item affects the income statement. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

Gains or losses from remeasuring the hedging instruments designated as a fair value hedge are recognised in the income statement. In addition, changes in the fair value of the hedged item are recognised in the income statement.

Discontinuation

If the hedge no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a financial asset the amount recognised in equity is reclassified to profit or loss in the same period that the hedged item affects the statement of profit or loss and other comprehensive income.

Interest rate risk management

Interest rate swap contracts – cash flow hedges

The Group enters into interest rate swap contracts to offset the variability in cash flows from changing interest rates. As the critical terms of the interest rate swap contracts and the corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the cash flows of the interest rate swap contracts and the cash flows of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates and offset one another.

Interest rate swap contracts – fair value hedges

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group 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.

Cross-currency interest rate swap contracts

The Group designates the cross-currency interest rate swap contracts in:

- fair value hedges of changing interest rates on foreign currency fixed rate borrowings; and
- 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, the Group 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.

Impacts of hedge accounting

The table below sets out the outcome of the Group's hedging strategy, as described above, including the notional and the carrying amounts of the derivatives the Group uses as hedging instruments.

Derivative financial assets/(liabilities):

	Fair value of derivative			Change in value		CFHR			
31 December 2022	**Notional $M**	**Assets $M**	**Liabilities $M**	**Hedging instrument $M**	**Hedged item $M**	**Opening Dr/(Cr) $M**	**Movement Dr/(Cr) $M**	**Transfer to P&L Dr/(Cr) $M**	**Closing Dr/(Cr) $M**
Cash flow hedges									
Interest rate swaps	**4,707.1**	**129.8**	**–**	**115.1**	**(115.1)**	**(10.3)**	**(80.0)**	**(0.6)**	**(90.9)**
Cross-currency interest rate swap	**271.0**	**4.2**	**(3.3)**	**9.5**	**(9.5)**	**1.6**	**(6.6)**	**5.6**	**0.6**
Fair value hedges									
Interest rate swaps	**–**	**–**	**–**	**(0.1)**	**0.1**	**–**	**–**	**–**	**–**
Total	**4,978.1**	**134.0**	**(3.3)**	**124.5**	**(124.5)**	**(8.7)**	**(86.6)**	**5.0**	**(90.3)**

	Fair value of derivative			Change in value		CFHR			
31 December 2021	**Notional $M**	**Assets $M**	**Liabilities $M**	**Hedging instrument $M**	**Hedged item $M**	**Opening Dr/(Cr) $M**	**Movement Dr/(Cr) $M**	**Transfer to P&L Dr/(Cr) $M**	**Closing Dr/(Cr) $M**
Cash flow hedges									
Interest rate swaps	3,522.3	20.4	(5.8)	(21.9)	21.9	25.6	(19.4)	(16.5)	(10.3)
Cross-currency interest rate swap	489.5	3.2	(11.7)	(17.0)	17.0	5.9	(28.4)	24.1	1.6
Fair value hedges									
Interest rate swaps	24.7	0.1		(0.9)	0.9	–	–	–	–
Total	4,036.5	23.7	(17.5)	(39.8)	39.8	31.5	(47.8)	7.6	(8.7)

The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, which is mainly due to the (gain)/loss from the hedged item spot rate revaluation and the foreign currency basis spread ('FCBS') amortised to profit or loss on a rational basis over the term of the hedging relationship. The 2022 opening balance of the cash flow hedge reserve ('CFHR') contained $3.0 million FCBS (2021: $5.5 million) that subsequently reduced by $0.2 million (2021: reduced by $0.1 million) during the year due to changes in fair value, partially offset by $1.4 million (2021: $2.4 million) transferred to profit and loss.

No significant hedge ineffectiveness was recorded in either the current or prior period.

Derivatives maturity profile

The following table details the portion of notional principal amounts reduced each year:

31 December 2022	Average contracted fixed rate	< 1 year	1 – 2 years	2 – 5 years	> 5 years
Interest rate swap contracts Notional Amount $M	**2.25%**	**1,556.1**	**1,391.6**	**1,671.1**	**88.3**
Cross-currency interest rate swap contracts (AUD/USD) Notional Amount $M	**$0.7103**	**83.5**	**8.6**	**–**	**–**
Cross-currency interest rate swap contracts (AUD/EUR) Notional Amount $M	**$0.6276**	**79.5**	**91.7**	**7.7**	**–**

31 December 2021	Average contracted fixed rate	< 1 year	1 – 2 years	2 – 5 years	> 5 years
Interest rate swap contracts Notional Amount $M	1.19%	1,205.6	1,041.7	1,236.5	63.1
Cross-currency interest rate swap contracts (AUD/USD) Notional Amount $M	$0.7207	154.7	95.9	17.7	–
Cross-currency interest rate swap contracts (AUD/EUR) Notional Amount $M	$0.6276	40.7	78.5	101.9	–

i. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's funding platform currently comprises a mix of secured warehouse facilities, term securitisations, corporate debt, debt issuance programme and equity. Refer to Notes 6(B) and 8 for more information on the Group's borrowings and equity respectively.

The majority of the Group's liabilities represent bonds issued by special purpose vehicles through warehouse facilities and term securitisation transactions. Under such arrangements, bondholder recourse is limited to the assets of the relevant special purpose vehicle to which the liability relates and the repayment profile of the bonds is matched to the repayments collected from the loan assets. Given the limited recourse nature of these borrowings, they have not all been included in the table below.

The Group's policy is to retain access to sufficient liquidity in the form of unencumbered liquid assets (i.e. unrestricted cash and readily available capital from corporate debt facilities) to meet potential funding requirements arising from potential stress events, without incurring unacceptable losses or risking damage to the Group's reputation. The amount of liquidity held is determined by policy, judgement and internal liquidity stress tests, which estimate the potential funding requirements stemming from extreme loss events.

The Group has cultivated strong long-term relationships with a range of domestic and international banks and professional investors as one of its key liquidity risk mitigants.

For the year ended 31 December 2022 there were no material breaches of any warehouse triggers and/or covenants that were not waived by the relevant funder(s) in the ordinary course of business.

The following table shows the Group's remaining expected maturity for its financial liabilities and derivatives. The tables are based on the undiscounted cash flows of financial liabilities on the earliest date on which the Group can be required to meet the obligation. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

Contractual maturities of financial liabilities	Carrying amount $M	3 months or less $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total contractual cash flows $M
At 31 December 2022						
Payables and other liabilities	**(13.4)**	**(13.4)**	**–**	**–**	**–**	**(13.4)**
Borrowings – non-recourse facilities	**(2,334.2)**	**(27.8)**	**(79.2)**	**(2,551.5)**	**–**	**(2,658.5)**
Derivative liabilities	**(3.3)**	**(0.6)**	**(1.7)**	**(1.4)**	**(0.1)**	**(3.8)**
Total	**(2,350.9)**	**(41.8)**	**(80.9)**	**(2,552.9)**	**(0.1)**	**(2,675.7)**

Contractual maturities of financial liabilities	Carrying amount $M	3 months or less $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total contractual cash flows $M
At 31 December 2021						
Payables and other liabilities	(11.2)	(11.2)	–	–	–	(11.2)
Borrowings – non-recourse facilities	(2,135.9)	(12.3)	(667.7)	(1,567.9)	–	(2,247.9)
Derivative liabilities	(17.5)	(1.7)	(5.2)	(11.5)	–	(18.4)
Total	(2,164.6)	(25.2)	(672.9)	(1,579.4)	–	(2,277.5)

j. Compliance and operational risk

Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation the entity may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice relevant to the entity. Operational risks are the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes risks such as data, IT, security, outsourcing and legal, but excludes strategic and reputational risks.

The Group's objective is to manage:

- *Compliance risk* to ensure that the Group is compliant with all applicable laws, regulations, codes of conduct and standards of good practice; and
- *Operational risk* so as to balance the avoidance of financial loss and damage to the Group's reputation, against excessive cost and control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to executives across the business. This responsibility is supported by the development of the Group's overall standards for management of compliance and operational risk in the following areas:

- Compliance with regulatory and other legal requirements
- Adherence to the Group's overall compliance and operating standards and policies
- Third party supplier relationships, including the risk of modern slavery
- Business continuity and contingency planning
- People and key person risk including training and professional development
- Outsourcing risk associated with materially outsourced services
- Competition risk
- Fraud risk
- Execution of the Group's standard operating procedures
- Technology risk
- Cyber risk
- Data risk
- Reputation risk

8. 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 31 December 2021	439.5	729.3

	Number of shares (millions)	$M
Opening balance 1 January 2022	**439.5**	**729.3**
Ordinary shares issued to NEDs and employees as part of share-based payment scheme	**0.2**	**0.3**
Balance 31 December 2022	**439.7**	**729.6**

During the period, the Group issued additional ordinary shares to non-executive directors (NEDs), in accordance with the Pepper Money non-executive director equity plan, and employees in accordance with the Pepper Money employee share save scheme. These plans were outlined in the prospectus lodged by Pepper Money with the Australian Securities and Investments Commission on 7 May 2021.

In 2021, 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 reserves

	As at	
	31 December 2022 $M	**31 December 2021 $M**
Currency translation reserve	**(0.3)**	(0.1)
Cash flow hedge reserve	**90.3**	8.7
Share-based payments	**9.8**	3.8
Total other reserves	**99.8**	12.4

Nature and purpose of other reserves

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses on the re-translation of the Group's net investment in foreign operations.

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated in the cash flow hedge reserve will be reclassified to the statement of profit or loss only when the hedged transaction affects the profit or loss.

Share-based payments reserve

The share-based payments reserve represents the value of equity-settled shared-based payment schemes. Refer to Note 10 for further information on each of the schemes.

9. Non-Financial Assets

A. Property, plant and equipment

	As at	
	31 December 2022 $M	**31 December 2021 $M**
Property, plant and equipment		
Right of use assets	**14.4**	3.4
Leasehold improvements	**3.9**	2.7
Plant and equipment	**0.7**	0.5
Total	**19.0**	6.6

	As at	
	31 December 2022 $M	**31 December 2021 $M**
Right of use assets		
Carrying amount at start of period	**3.4**	8.7
Acquisition of Stratton	**4.0**	–
Additions	**11.8**	–
Depreciation expense	**(4.5)**	(4.6)
Derecognition of right of use assets	**(0.3)**	(0.7)
	14.4	3.4
Leasehold improvements		
Carrying amount at start of period	**2.7**	4.6
Acquisition of Stratton	**1.6**	–
Additions	**1.5**	–
Depreciation expense	**(1.9)**	(1.9)
	3.9	2.7
Plant and equipment		
Carrying amount at start of period	**0.5**	0.3
Additions	**0.6**	0.6
Depreciation expense	**(0.4)**	(0.3)
Written-off	**–**	(0.1)
	0.7	0.5
Total Property, plant and equipment	**19.0**	6.6

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Assets are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortised over the shorter of the remaining period of the individual leases or the estimated useful life of the improvement. Useful lives are reassessed each period. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets. The expected useful lives are as follows:

Right of use assets	The shorter of the asset's useful life and the lease term
Leasehold improvements	Not greater than the reasonably certain term of the lease of the premises
Plant and equipment	Between 3 and 5 years

Property, plant and equipment are tested for impairment when there is an indication that the asset may be impaired (assessed at least each reporting date) or when there is an indication that a previously recognised impairment may have changed.

B. Goodwill and intangibles

	As at	
	31 December 2022 $M	31 December 2021 $M
Goodwill and intangibles		
Goodwill	**98.2**	–
Other intangible assets	**25.2**	–
Software	**28.9**	31.5
Total	**152.3**	31.5

	As at	
	31 December 2022 $M	31 December 2021 $M
Goodwill		
Opening balance	**–**	–
Acquisition of controlled entities	**98.2**	–
Impairment	**–**	–
	98.2	–
Other intangible assets		
Opening balance	**–**	–
Acquired intangibles – brand	**21.0**	–
Written-off	**–**	–
	21.0	–
Other intangible assets		
Opening balance	**–**	–
Acquired intangibles – customer relationships	**4.7**	–
Amortisation expense	**(0.5)**	–
Written-off	**–**	–
	4.2	–
Software		
Opening balance	**31.5**	38.9
FX on opening	**–**	(0.2)
Additions	**10.2**	9.7
Amortisation expense	**(12.8)**	(13.7)
Written-off	**–**	(3.2)
	28.9	31.5
Total Goodwill and intangibles	**152.3**	31.5

a. Goodwill

The consideration transferred in an acquisition is measured at fair value, as are the identifiable net assets acquired.

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets and liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised and is tested annually for impairment.

The Group has allocated goodwill acquired through business combinations to the Asset Finance Cash Generating Unit ("CGU"). As the only CGU with non-amortising intangible assets, the Group determined the Asset Finance CGU to be the only CGU subject to an annual impairment test. The Group performed its annual impairment test in December 2022.

b. Impairment assessment for goodwill

Impairment assessment

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Goodwill of $98.2 million arising on the acquisition of Stratton has been allocated for impairment testing purposes to the Asset Finance segment. The goodwill represents the value expected from revenue synergies arising from combining the operations of Stratton into Pepper Money through the broadening of Stratton into Pepper Money's established distribution footprint, as well as extending Pepper Money's product portfolio into Stratton's established broker base and franchise network.

Stratton is an online direct-to-consumer asset finance broking platform. As the Group's Asset Finance business provides funding to Stratton, and given common customers and revenue and cost synergies, the Asset Finance segment is considered to be the CGU that is expected to benefit from the synergies of the business combination, and the associated goodwill has been tested for impairment accordingly.

Furthermore, each unit or group of units to which the goodwill is allocated shall:

- represent the lowest level at which the goodwill is monitored for internal management purposes; and
- not exceed the operating segments.

In assessing the goodwill in Stratton, Management has determined the fair value with reference to the acquisition model. Based upon the impairment testing performed, there is no impairment charge for 2022.

Factors considered in determining the fair value include:

- since the acquisition date, Stratton has exceeded Net Assets Financed ('NAF') and new customers acquired expectations; and
- there are controls in place, including but not limited to, cost control and portfolio management, which are embedded in the business to provide guardrails in changing macroeconomic conditions.

c. Amortisation methods and useful lives

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. Amortisation periods used for each class of the asset are:

- Product development costs: 3-5 years
- Computer software and licenses: 3 years
- Customer contracts and relationships: 5 years

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.

Intangible assets that have an indefinite life are not subject to amortisation and are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that it might be impaired.

There is no impairment loss recognised at the reporting date.

d. Brand

The brand was acquired as part of the Stratton acquisition (see Note17(B)). The Stratton brand is classified as an indefinite life intangible asset given the length of time it has been in use and the likelihood that a market participant acquiror would have retained this key asset of the business. Brand is not subject to amortisation and is tested annually for impairment, or more frequently, if events or changes in circumstances indicate that it might be impaired.

The annual impairment testing of brand performed in 2022 revealed no impairment and no need to recognise an impairment loss as at 31 December 2022.

e. Customer relationships

The customer relationships were acquired as part of the Stratton acquisition (see Note17(B)). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

The annual impairment testing of customer relationships performed in 2022 revealed no impairment and no need to recognise an impairment loss as at 31 December 2022.

10. Share-based payments

During the current and prior year, the Group provided benefits to non-executive directors ('NEDs'), executives and employees of the Group through share-based incentives. Relevant employees are paid for their services or incentivised for their performance in part through shares or rights over shares ('equity-settled transactions'). NEDs are paid for their services in part, or are able to sacrifice fees towards, shares or rights over shares.

As at 31 December 2022, the Group did not have any cash-settled share-based payment arrangements.

Accounting policy

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made, using an appropriate valuation model, as detailed below.

That cost is recognised in employee benefits expense (Note 4(D)), together with a corresponding increase in equity (other reserves), over the period in which the performance and, where applicable, the performance conditions are fulfilled (the vesting period). The share-based payments reserve is used to record the value of equity benefits provided to employees and non-executive directors ('NEDs') as part of their remuneration.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For rights vesting based on non-market vesting conditions, no expense is recognised for awards that do not ultimately vest, except for awards that are cancelled or where vesting is only conditional upon a market condition.

For rights issued based on market conditions such as TSR, an expense is recognised based on the Group meeting market expectations. In the event rights are cancelled, or cancelled and reissued, the unexpensed cost for these is brought forward and recognised immediately in addition to the expense for any reissued/new options. If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured, at the date of modification.

Fair value estimation

The Group is required to measure the fair value of the rights granted and the estimation of the fair value of share-based payment awards requires judgement with respect to the appropriate valuation methodology. The choice of valuation methodology has been determined by the structure of the awards, particularly the vesting conditions. The applicable valuation methodology for each scheme is outlined below.

The number of rights granted to executives and employees is calculated in accordance with the performance-based formula approved by the Pepper Money Limited Board and Remuneration and Nomination Committee. The formula rewards employees to the extent of the Group's and individual's achievement judged against both qualitative and quantitative criteria.

The number of rights granted to NEDs is calculated in accordance with a formula approved by the Pepper Money Limited Board and Remuneration and Nomination Committee. The number of rights granted to the NEDs is calculated by reference to the NEDs remuneration divided by the Black Scholes value of the right at the time of calculation.

The below table details the number and weighted average exercise prices ('WAEP') and movements in share rights during the year, noting that 2021 marks the first year where share schemes were issued in Pepper Money Limited. As at 31 December 2022, there were no share schemes which had an exercise price.

	2022 Number of units	**2022 WAEP ($)**	**2021 Number of units**	**2021 WAEP ($)**
Outstanding at 1 January	**4,853,904**	**-**	–	–
Granted	**5,131,626**	**-**	4,853,904	1.23
Forfeited	**(128,261)**	**-**	–	–
Exercised	**(159,168)**	**-**	–	–
Expired	**(2,774,140)**	**-**	–	–
Outstanding at 31 December	**6,923,961**	**-**	4,853,904	–
Exercisable at 31 December	**218,141**	**-**	–	–

The following plans were exercisable as at 31 December 2022:

- employee service rights plan (2021); and
- employee share save plan.

Total expenses arising from equity-settled share-based payment transactions recognised during the year as part of employee benefits expense were $6.0 million (2021: $3.8 million).

There were no cancellations or modifications to the awards in 2022 or 2021. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (refer to Note 4(F)).

As at 31 December 2022, the Group had the following share-based payment schemes in place:

a. Executive performance rights plan

Executive Performance Rights Plans were introduced in both 2021 and 2022.

Under the Executive Performance Rights Plan, share rights were granted to senior eligible executives subject to both market and non-market based vesting conditions. There are two tranches to the plan: Tranche 1 is based on an indexed total shareholder return ('iTSR/'TSR') whilst Tranche 2 has a return on equity ('ROE') hurdle.

The rights will only vest to the extent that the conditions are satisfied over the relevant performance periods, as follows:

- The participant achieving a performance rating of at least 'met expectations' in the final year of the measurement period.
- The rating for Pepper Money Risk Scorecard must be at least 'met expectations' in the final year of the measurement period.
- Indexed TSR and ROE performance over the performance period, as follows:

Tranche 1:

- The TSR of the Group is compared to the TSR of the comparator index for the purpose of determining the relative performance of the Group. The level of outperformance of the Group, compared to the index, is used to determine the proportion of the rewards.
- For the TSR metric, a gate applies which is the Group's TSR must be positive. If not, then nil vesting will apply to Tranche 1.

Tranche 2:

- The vesting of tranche 2 is subject to the Group's ROE against a range of pre-specified levels of ROE.

The Group may offer additional grants to eligible participants over time, in accordance with the rules of the plan.

No amounts are paid or payable by the participant on receipt of the rights. If the rights remain unexercised after a period of 15 years from the date of grant, the rights expire. Subject to the performance testing outcome, the rights may convert into one ordinary share each on vesting at an exercise price of nil.

The executives do not receive any dividends and are not entitled to vote in relation to the performance rights during the vesting period. If an executive ceases to be employed by the Group during the first year of the measurement period, the rights will be forfeited in the proportion that the remainder of the first year of the measurement period compares to a full year. Remaining rights will continue to be held for vesting at the end of the measurement period, except in limited circumstances that are approved by the Board on a case-by-case basis.

Further details of the two plans are as follows:

2022

	Tranche 1	**Tranche 2**
Conditions		
Grant date	12 May 2022	12 May 2022
Share price at grant date	$1.85	$1.85
Vesting period	1 January 2022 to 31 December 2024	1 January 2022 to 31 December 2024
Allocation date	1 March 2025	1 March 2025
Assumptions		
Expected volatility – Pepper Money Limited	38%	38%
Expected volatility – ASX 300 Financials (Sector) Total Return Index ('the index')	18%	N/A
Correlation between Pepper Money Limited and the index	35%	N/A
Dividend yield	5.8%	5.8%
Risk-free interest rate	2.84%	2.84%
Expected life	2.8 years	2.8 years
Other information		
Weighted average fair value at measurement date ('WAFV')	$0.74	$1.58
Expense for the period	$323,402	$693,005
Number of rights granted	1,757,397	1,757,397
Vested at the end of the period	None	None
Valuation methodology	Monte-Carlo	Binomial

2021

	Tranche 1	Tranche 2
Conditions		
Grant date	24 September 2021	24 September 2021
Share price at grant date	$2.49	$2.49
Vesting period	25 May 2021 to 31 December 2023	1 July 2021 to 31 December 2023
Allocation date	1 March 2024	1 March 2024
Assumptions		
Expected volatility – Pepper Money Limited	40%	40%
Expected volatility – ASX 300 Financials (Sector) Total Return Index ('the index')	18%	N/A
Correlation between Pepper Money Limited and the index	35%	N/A
Dividend yield	3.3%	3.3%
Risk-free interest rate	0.12%	0.12%
Expected life	2.4 years	2.4 years
Other information		
Weighted average fair value at measurement date ('WAFV')	$0.93	$2.34
Expense for the prior period	$354,427	$891,792
Expense for the period	$352,490	$886,919
Number of rights granted	760,126	760,133
Vested at the end of the period	None	None
Valuation methodology	Monte-Carlo	Binomial

There were no rights granted in prior years and there will be no expense incurred in future years.

The volatility assumption is representative of the level of uncertainty expected in the movements of the Group's share price over the life of the award. The following factors have been determined in assessing the expected volatility of the Group's share price:

- the historic volatility of the market price of the Group's share price;
- the mean reversion tendency of volatilities;
- the tendency of newly listed entities to show decreasing volatility early in their life; and
- up to 5 years' historic volatility of comparable companies.

The expected volatility of the index is determined based on up to 5 years' historic volatility of the index.

b. Employee service rights

Eligible employees were invited to participate in separate Employee Service Rights schemes in both 2021 and 2022. The rights vest when applicable performance and service conditions have been fulfilled.

Service rights requires eligible employees to be employed by the Group at the date of vesting and the employee must achieve a 'meets expectation' rating in the final year of the measurement period.

No vesting will occur prior to the elapsing of the measurement period and additional rights cannot be applied for.

Rights are granted under the plan for no consideration and carry no dividend or voting rights.

The below tables summarise both the 2021 and 2022 scheme details:

2022

Conditions	
Grant date	14 June 2022
Share price at grant date	$1.35
Vesting period	1 January 2022 to 31 December 2023
Allocation date	1 March 2024
Assumptions	
Dividend yield	5.8%
Other information	
WAFV	$1.35
Number of rights granted	1,050,011
Expense in the current period	$523,549
Vested at the end of the period	None
Valuation methodology	Rights valued based on grant date share price, subject to holding restrictions

There were no rights granted in prior years.

2021

Conditions	
Grant date	24 September 2021
Share price at grant date	$2.49
Vesting period	25 May 2021 to 31 December 2022
Allocation date	1 March 2023
Assumptions	
Dividend yield	3.3%
Other information	
WAFV	$2.49
Number of rights granted	240,855
Expense for the prior period	$207,938
Expense in the current period	$415,876
Vested at the end of the period	None
Valuation methodology	Rights valued based on grant date share price, subject to holding restrictions

No rights have been granted in the period or prior year.

The measurement period has now passed and 210,568 rights are due to vest in March 2023.

c. NED equity scheme

In October 2021, the Group adopted an approach to NED remuneration that facilitates the acquisition of equity by NEDs on the basis of fee sacrifice arrangements, whereby NEDs agree to exchange 25% of their annual Board fees (pre-tax) for grants of restricted rights.

Under the scheme, the rights confer an entitlement, when validly exercised, to fully paid ordinary shares in Pepper Money Limited.

Each year the Board will decide whether to invite NEDs to apply for Rights under the Plan. The Board will decide:

- those NEDs to receive invitations;
- the numbers of Rights that each NED will be invited to apply for; and
- the terms and conditions of the invitations, including vesting conditions (if any).

Exercise restrictions apply to restricted rights for the first 90 days after grant. Once this time period elapses, the NED can consider whether they wish to exercise the rights into restricted shares before the next dividend is paid by the Group.

Restricted shares are entitled to dividends as they are fully-paid ordinary shares on issue, which are subject to the following disposal restrictions:

- the elapsing of 15 years from their date of grant; or
- the Scheme participant ceasing to hold the office of NED.

Additional rights cannot be applied for and all rights were exercised and converted to 159,168 ordinary shares in the year.

For the financial year ended 31 December 2022, share-based payment expense relating to this scheme was nil (2021: $0.4 million).

d. Employee share save scheme

A scheme under which shares were issued by the Group to Australian employees for no cash consideration was approved by the Board in October 2021.

All Australian permanent full time or part time employees (excluding executive Directors) were eligible to participate in the scheme. Employees could elect not to participate in the scheme.

Under the scheme, eligible employees could elect to salary sacrifice a minimum of $1,000 or maximum of $20,000 in exchange for fully paid ordinary shares in Pepper Money Limited. Employees may vary the amount of salary sacrifice in relation to earnings for future work at any time, but not more than twice per annum, unless approved by the Board.

Exercise restrictions apply for 90 days after the grant date and have a term of 14 years from their date of grant.

Conditions	
Measurement date	1 October 2021
Share price at measurement date	$2.46
Exercise restrictions	90 days from grant date
Vesting date	Upon grant
Assumptions	
N/A	
Other information	
Number of rights granted	12,910
Expense for the prior period	$139,078
Expense for the current period	$436,191
Vested at the end of the period	7,573
Valuation methodology	Rights valued based on grant date share price

e. Employee $1,000 tax-exempt share scheme

A scheme under which shares were issued by the Group to employees for no cash consideration was approved by the Board in May 2021. All permanent full time or part time employees (excluding executive Directors) who were employed by the Group on or before 31 March 2021 were eligible to participate in the scheme. Employees could elect not to participate in the scheme.

Under the scheme, eligible employees were granted $1,000 worth of fully paid ordinary shares in Pepper Money Limited for no cash consideration. The number of shares issued to participants in the scheme was the offer amount divided by the offer price at which the Group's shares listed on the ASX on the IPO date of 25 May 2021. The shares are recognised at the closing share price on the grant date (grant date fair value) as issued capital and as part of employee benefits expense in the year the shares were granted (2021).

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment by the Group. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

No further share issues have occurred in the period and the scheme is considered closed.

For the financial year ended 31 December 2022, share-based payment expense relating to this scheme was nil (2021: $0.5 million).

f. IPO rights and IPO share appreciation rights

In September 2021, the remuneration committee decided to reward selected employees for their contribution to the IPO of Pepper Money Limited by granting them 2,774,140 IPO rights and IPO share appreciation rights (SARs). The rights entitle the employees to an equity payment at the end of the performance period if the employee achieves a 'meets expectations' performance rating in 2022. For either tranche to vest, Pepper Money's share price at the end of the measurement period (based on a 10 trading day VWAP up to the end of the measurement period, 31 December 2022) must equal at least the Offer Price of $2.89.

The amount of rights payable will be determined based on the increase of Pepper Money Limited's share price between the IPO date (25 May 2021: $2.89) and the vesting date. The rights cannot be exercised until 31 December 2023 and have an expiry date of 20 September 2026.

No amount was payable in relation to the application for the rights and SARS (the acquisition price is nil) and rights to dividends do not exist until the rights are exercised.

As the share price did not meet the vesting conditions, the rights lapsed at 31 December 2022.

For the financial year ended 31 December 2022, share-based payment expense relating to this scheme was $1.0 million (2021: $0.5 million).

g. Deferred STVR restricted rights –Executives

Under the scheme, 35% of the Executive's short-term variable remuneration ('STVR') is deferred in the form of restricted rights:

- A deferral of 35% of any short-term variable remuneration, applies to both the CY2022 STVR and CY2021 STVR.
- 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 and CY2022, the deferral rate of 35%, and divided by the 10 trading day VWAP following the release of the 2021 and 2022 annual results respectively.

The fair value of the Scheme equates to 35% of the calculated STVR amount.

	2022 scheme	2021 scheme
Conditions		
Grant date	May 2023	12 May 2022
Adjusted VWAP over the 10 trading days following the release of the annual results	TBC	$1.65
Exercise restrictions	1 January 2023 to 31 December 2024	1 January 2022 to 31 December 2023
Vesting date	Upon grant	Upon grant
Assumptions		
Dividend yield	5.8%	3.3%
Other information		
Number of rights granted	TBC	553,911
Expense for the prior period	N/A	$846,531
Expense for the period	$929,568	$178,204
Vested at the end of the period	None	None
Valuation methodology	Shares valued based on 35% of STVR award	Shares valued based on 35% of STVR award

h. Deferred STVR restricted rights – senior employees

Under the scheme, 20% of eligible, senior employee's STVR is deferred in the form of restricted rights:

The fair value of the Scheme equates to 20% of the calculated STVR amount.

- A deferral of 20% of any short-term variable remuneration applies to the CY2022 STVR.
- 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 CY2022, the deferral rate of 20%, and divided by the 10 trading day VWAP following the release of the 2022 annual results.

Conditions	
Grant date	May 2023
Adjusted VWAP over the 10 trading days following the release of the annual results	TBC
Exercise restrictions	1 January 2023 to 31 December 2024
Vesting date	Upon grant
Assumptions	
Dividend yield	5.8%
Other information	
Number of rights granted	TBC
Expense for the period	$472,752
Vested at the end of the period	None
Valuation methodology	Shares valued based on 20% of STVR award

11. Related party transactions

A. Related party disclosures

a. Subsidiaries

Interests in the Group's subsidiaries at the end of the reporting period are set out below. These subsidiaries are in addition to the consolidated structured entities, which are 100% owned. Refer to Note 13(A) for more detail.

Name of subsidiary (controlled companies)	Principal activity	Place of incorporation and operation	31 December 2022	31 December 2021
Pepper Homeloans Pty Ltd	Mortgage originator	Australia	**100%**	100%
Pepper Finance Corporation Ltd	Australian mortgage lender of record and trustee	Australia	**100%**	100%
Well Nigh Capital No. 1 Pty Ltd	Australian mortgage lender of record and trustee	Australia	**100%**	100%
Pepper Asset Finance Pty Ltd	Australian asset finance originator and lender of record	Australia	**100%**	100%
Habanero Asset Finance Pty Ltd	Trustee	Australia	**100%**	100%
Pepper Europe Holdings Pty Limited	Holding company	Australia	**100%**	100%
PSB Investment Holdings Pty Ltd[1]	Holding company	Australia	**N/A**	100%
Pepper Chipotle Investments Pty Ltd	Dormant	Australia	**100%**	100%
Pepper Chipotle Investments No. 2 Pty Ltd	Special purpose vehicle	Australia	**100%**	100%
Pepper Chipotle Investments No. 3 Pty Ltd	Special purpose vehicle	Australia	**100%**	100%
Pepper Chipotle Investments No. 4 Pty Ltd	Special purpose vehicle	Australia	**100%**	100%
Pepper Chipotle Investments No. 5 Pty Ltd[2]	Special purpose vehicle	Australia	**100%**	N/A
Pepper Jalapeno Investments Pty Ltd	Dormant	Australia	**100%**	100%
Pepper Jalapeno Investments No. 2 Pty Ltd	Special purpose vehicle	Australia	**100%**	100%
Pepper Jalapeno Investments No. 3 Pty Ltd[2]	Special purpose vehicle	Australia	**100%**	N/A
Pepper SW1 Pty Limited[3]	Dormant	Australia	**N/A**	100%
Pepper Capital Corporation Pty Limited[4]	Dormant	Australia	**N/A**	100%
Pepper ES Holdings Pty Ltd[5]	Dormant	Australia	**N/A**	100%
PEPL Holdings Pty Limited	Dormant	Australia	**100%**	100%
Pepper New Zealand Limited	New Zealand mortgage originator and lender of record	New Zealand	**100%**	100%
Pepper New Zealand (Beneficiary) Ltd	Dormant	New Zealand	**100%**	100%
Pepper New Zealand (Settlor) Ltd	Dormant	New Zealand	**100%**	100%

Name of subsidiary (controlled companies)	Principal activity	Place of incorporation and operation	31 December 2022	31 December 2021
PSO (Manila) Limited	Management services	United Kingdom	**100%**	100%
Stratton Finance Pty Ltd	Asset finance broking	Australia	**65%**	N/A
Stratton Franchise Pty Ltd	Asset finance broking	Australia	**65%**	N/A
Stratton Connect Pty Ltd	Asset finance broking	Australia	**65%**	N/A
Stratton Marine and Outdoor Finance Pty Ltd	Asset finance broking	Australia	**65%**	N/A

1. Deregistered on 26 October 2022.
2. Incorporated on 17 November 2022.
3. Deregistered on 20 July 2022.
4. Deregistered on 20 July 2022.
5. Deregistered on 29 July 2022.

The ultimate parent entity of Pepper Money Limited is Pepper Global Topco Limited ('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 ('Holdco'). Holdco owns 60.57% of the shares of Pepper Money Limited (and its controlled entities).

b. Transactions and balances with related party entities

The following table details the total amount of transactions that have been entered into with related parties during the year ended 31 December 2022 and 31 December 2021, as well as balances with related parties as at 31 December 2022 and 31 December 2021:

$'000	Dividend income/ (paid)	Interest income and other fees	Interest expense and other fees	Receivable	Payable
Entity with control over the Group:					
Pepper Group ANZ Holdco Limited – 2022	**(38,349)**	**–**	**–**	**298**	**–**
Pepper Group ANZ Holdco Limited – 2021	–	–	(2,977)	298	–
Pepper Group Services Australia Pty Ltd – 2022	**–**	**300**	**(810)**	**–**	**(1,097)**
Pepper Group Services Australia Pty Ltd – 2021	–	175	(1,794)	–	(2,893)
Pepper Group Assets Australia Pty Ltd – 2022	**–**	**–**	**(213)**	**–**	**(234)**
Pepper Group Assets Australia Pty Ltd – 2021	–	–	–	–	–
Red Hot Australia Bidco Pty Ltd – 2022	**–**	**–**	**–**	**–**	**–**
Red Hot Australia Bidco Pty Ltd – 2021	–	–	(4,538)	–	–
Other related parties of Pepper Money Limited – 2022	**–**	**–**	**–**	**29**	**(323)**
Other related parties of Pepper Money Limited – 2021	470	602	(4,110)	914	–

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.

c. Loans to/from related parties

In 2021, 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. The receivable is classified as treasury shares as the receivables are limited recourse to the Pepper Money Limited shares held by management.

	As at	
	31 December 2022 $'000	**31 December 2021 $'000**
Loans to key management personnel of the Group		
Loan balances	**5,562.0**	5,593.0

d. Key management personnel compensation

The remuneration of directors and key management personnel ('KMP') is determined by the Remuneration and Nomination Committee having regard to the performance of individuals and market trends.

Detailed remuneration disclosures are provided in the Remuneration Report.

	Year ended	
	31 December 2022 $'000	**31 December 2021 $'000**
Key management personnel remuneration		
Short-term employee benefits	**(2,634)**	(3,401)
Long-term benefits	**(1,035)**	(608)
Share-based payment benefits	**(1,040)**	(300)
Total key management personnel remuneration	**(4,709)**	(4,309)

The above table includes those individuals who during or since the end of the period were determined to be KMP of the Group, and their historic benefits.

12. Parent entity financial information

A. Summary financial information

Pepper Money Limited is the parent entity of the Group, as at and throughout the year ended 31 December 2022.

The consolidated financial statements for the parent entity of the Group's continuing operations show the following aggregate amounts:

	As at	
	31 December 2022 $M	31 December 2021 $M
Assets		
Cash and cash equivalents	**89.5**	112.9
Receivables	**651.1**	437.1
Deferred tax assets	**38.2**	42.9
Intangible assets	**29.0**	31.2
Investment in subsidiary	**84.2**	6.6
Other asset categories	**540.5**	458.7
Total assets	**1,432.5**	1,089.4
Liabilities		
Current tax	**24.1**	39.2
Borrowings	**226.9**	81.9
Other liability categories	**40.0**	42.5
Total liabilities	**291.0**	163.6
Total net assets	**1,141.5**	925.8
Equity		
Issued capital	**729.7**	729.3
Other reserves	**9.8**	3.8
Retained earnings	**402.0**	192.7
Total equity	**1,141.5**	925.8

	Year ended	
	31 December 2022 $M	31 December 2021 $M
Net profit after tax	**225.1**	462.1
Total comprehensive income	**225.1**	462.1

B. Guarantees, contingent assets and contingent liabilities

As at 31 December 2022, there were no financial guarantees or contingent assets with respect to the parent entity (2021: Nil).

The Group has provided guarantees over funding facilities provided by several external parties to the Group. As at balance date, the balance drawn on the guaranteed facilities was $752.5 million (2021: $749.3 million).

C. Contractual commitments for the acquisition of property, plant or equipment

The Group has not entered into any contractual commitments for the acquisition of property, plant or equipment in 2022 or 2021.

D. Determining the parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below:

a. Investments in subsidiaries and associates

Investment in subsidiaries and associates are accounted for at cost (less accumulated impairment loss, if any) in the financial statements of the parent entity.

b. Tax consolidation legislation

Refer to Note 4(E)(c) for further information.

13. Structured entities

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

a. Consolidated structured entities

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

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

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

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

The Group's limited-recourse financing structures partially transfers the risk of credit losses on portfolios to the capital providers to the funding vehicles. The Group's exposure to losses is therefore limited to its rights to current and future residual income from its funding vehicles, along with the value of the equity notes that the Group contributes as 'first loss' capital to the funding vehicles and in certain circumstances, CRR notes.

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

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

The Group is deemed to control these funding structures for accounting purposes due to the combination of the Group's investment in each funding vehicle (exposure to variable interest) and the Group's role as servicer (power to influence those variable returns). As a result, the Group consolidates the assets and liabilities, income and expenses of most of these entities in accordance with AASB 10 *Consolidated Financial Statements*.

14. Commitments

A. Capital commitments

There were no capital commitments as at the end of the financial year or arising since balance date (2021: Nil).

B. Lease commitments: Group as lessee

The Group has provided guarantees in respect of the leases over its office premises of $3.7 million (2021: $3.4 million).

15. Contingent liabilities

The Directors were not aware of any contingent liabilities as at the end of the financial year or arising since balance date.

16. Remuneration of auditors

	Year ended	
	31 December 2022 $	**31 December 2021 $**
Deloitte Touche Tohmatsu		
Audit and review of financial statements	**1,210,582**	1,157,500
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	**277,200**	971,799
Other services - advisory	**235,000**	–
	1,722,782	2,129,299
Other auditors		
Other services	**642,497**	476,908
	642,497	476,908
Total remuneration	**2,365,279**	2,606,207

Non-audit services

The auditor of the Group is Deloitte Touche Tohmatsu (Deloitte). It is the Group's policy to employ Deloitte on assignments additional to their statutory audit duties, in compliance with the Group's independence policies, where Deloitte's expertise and experience with the Group are important.

17. Business combination

A. Accounting policy

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the company,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity,

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (less accumulated impairment losses, if any). Goodwill is not amortised and is tested annually for impairment.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

B. Acquisition of Stratton Finance Pty Limited

On 1 July 2022, the Group completed the acquisition of a 65% interest in Stratton Finance Pty Limited ('Stratton'), one of Australia's largest online asset finance brokers.

The acquisition enables the Group to accelerate the growth of the Asset Finance business, by providing opportunities to grow the direct-to-consumer offerings and leverage Stratton's broad customer data to continue to develop innovative customer focused solutions.

The Group entered into a binding agreement to acquire the 65% interest in Stratton on 4 April 2022. Under the terms of the deal, the Group paid cash of $77.5 million for the 65% interest, funded in part from a drawdown on Pepper Money's Corporate Debt Facility and in part from existing cash balances.

The transaction valued Stratton at $120.0 million on a debt free/cash free basis. The Group and Stratton also entered into a Put and Call Option in relation to the remaining 35% interest in Stratton, exercisable from Q1 CY 2024 through Q1 CY2026, with a base price of $42.0 million indexed based on Stratton's performance from completion of the acquisition of the 65% interest to the exercise of the option.

As at 31 December 2022, the put and call option was measured at a fair value of nil. Future changes to the fair value of the put and call option will be recognised in the income statement.

Details of the major classes of consideration transferred, the recognised amounts of assets acquired, and liabilities assumed, and goodwill recognised as a result of the acquisition at the acquisition date are as follows:

	Total $M
Total purchase consideration transferred	**77.5**

	Fair value as at 1 July 2022 $M
Assets	
Cash and cash equivalents	1.2
Trade and other receivables	1.7
Contract assets	1.7
Plant and equipment	1.6
Right of use assets	4.0
Acquired intangibles – brand	21.0
Acquired intangibles – customer relationships	4.7
Deferred tax asset	2.0
Total assets	**37.9**
Liabilities	
Trade and other payables	5.5
Lease liabilities	4.0
Employee benefits	1.5
Deferred tax liability	7.7
Total liabilities	**18.7**
Net identifiable assets acquired	**19.2**
Less: 35% non-controlling interest	**(39.9)**
Add: goodwill	**98.2**
Net assets acquired	**77.5**

Goodwill of $98.2 million arising on the acquisition of Stratton represents the value expected from revenue synergies arising from combining the operations of Stratton into Pepper Money through the broadening of Stratton into Pepper Money's established distribution footprint, as well as extending Pepper Money's product portfolio into Stratton's established broker base and franchise network. Given the common customers, revenue and cost synergies, and source of funding, Stratton has been incorporated under the Asset Finance CGU.

The Group completed the acquisition of Stratton on 1 July 2022. AASB 3 *Business Combinations* makes provision for a measurement period of 12 months to finalise the valuation of assets acquired in a business combination. The amounts included in Pepper's financial statements as at 31 December 2022 in respect of the tax balances acquired represent Management's provisional valuation of tax balances only.

The goodwill is not expected to be deductible for tax purposes.

There were no acquisitions in the year ending 31 December 2021.

The valuation techniques used for measuring the fair value of material assets acquired were:

Assets acquired	Valuation technique	Description	Useful life	Amortisation method
Brand	Relief-from-Royalty method	A commonly used and widely accepted method for valuing trade names, which focuses on the availability of forecast revenues and earnings of the Stratton brand.	Indefinite	N/A
Customer relationships	Multi-period excess earnings method	A specific application of the discounted cash flow method, which focuses on the present value of the excess earnings expected to be generated by repeat customers of Stratton.	5 years	Straight line

a. Contingent consideration

No contingent consideration has been recognised.

b. Contingent liability

No contingent liabilities were acquired or recognised.

c. Acquired receivables

The fair value of acquired trade and other receivables is $1.7 million. The ECL has been assessed as immaterial and no provision has been recognised on acquisition.

d. Accounting policy choice for non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Stratton, the Group elected to recognise the non-controlling interests at fair value.

The 35% non-controlling interest in Stratton recognised at the acquisition date amounted to $39.9 million and was measured by reference to the fair value of the non-controlling interest, less an assumed 5% discount for lack of control. The key model inputs used in determining the fair value is assumed adjustments because of the lack of control when estimating the fair value of the non-controlling interests in Stratton.

	$M
Fair value of Stratton	**120.0**
35% non-controlling interest	**42.0**
Less: 5% non-controlling interest discount for lack of control	**(2.1)**
Non-controlling interest	**39.9**

e. Group revenue and profit contribution

Stratton contributed revenues of $14.1 million and a net loss after tax of $1.5 million to the Group for the period from 1 July 2022 to 31 December 2022.

If the acquisition had occurred on 1 January 2022, consolidated pro-forma revenue and net loss after tax for the year ended 31 December 2022 would have been $28.4 million and $3.6 million respectively. These amounts have been calculated using Stratton's results and adjusting them for:

- differences in the accounting policies between Pepper Money and Stratton; and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2022, together with the consequential tax effects.

C. Purchase consideration – cash outflow

	$M
Outflow of cash to acquire subsidiary, net of cash acquired	
Initial cash consideration – 1 July 2022	**76.9**
Less: Balances acquired	
Cash	**(1.2)**
Net outflow of cash	**75.7**
Subsequent cash consideration – 8 February 2023	**0.6**
Total cash consideration[1]	**77.5**

1. Total cash consideration consists of the initial cash consideration on 1 July 2022 plus the subsequent cash consideration on 8 February 2023.

Acquisition-related costs

In the period, the Group incurred acquisition-related costs of $1.5 million. These costs have been included in General and Admin expenses in the consolidated statement of profit or loss and in investing cash flows in the consolidated statement of cash flows.

18. Discontinued operations

A. Background

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 ('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 Holdco and $381.4 million to Bidco before all Pepper Money Limited shares were sold to 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 prior comparative period only.

31 December 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 (losses)/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**

C. Cash flows

The table below presents a consolidated view of the cash flow statements for the discontinued and continuing operations for the year ended 31 December 2021. This table is not required for the year ended 31 December 2022 as there were no discontinued operations during the year.

Consolidated statement of cash flows 2021 $M	Continuing operations	Discontinued operations	Total
Operating activities			
Interest received	654.9	177.4	832.3
Interest paid	(324.4)	(57.3)	(381.7)
Receipts from loan fees and other income	68.9	53.6	122.5
Payments to suppliers and employees	(202.4)	(102.7)	(305.1)
Payments of net loans to borrowers	(2,859.4)	(751.2)	(3,610.6)
Proceeds from sale of loan portfolios	388.4	23.4	411.8
Income taxes paid	(55.8)	(3.9)	(59.7)
Net cash (outflow) from operating activities	(2,329.8)	(660.7)	(2,990.5)
Investing activities			
Payment for intangibles and other assets	(10.1)	(12.0)	(22.1)
Net payments for investments	(4.0)	(20.8)	(24.8)
Net cash (outflow) from disposal of businesses	–	(1,212.1)	(1,212.1)
Net cash (outflow) from investing activities	(14.1)	(1,244.9)	(1,259.0)
Financing activities			
Proceeds from borrowings	12,941.2	458.8	13,400.0
Repayment of borrowings	(10,653.5)	(140.4)	(10,793.9)
Repayment of lease liability	(8.3)	(1.6)	(9.9)
Proceeds from issuance of capital	488.2	–	488.2
Net proceeds from deposits	–	596.2	596.2
Net cash inflow from financing activities	2,767.6	913.0	3,680.6
Net increase/(decrease) in cash and cash equivalents	423.7	(992.6)	(568.9)
Effects of exchange rate changes on balance of cash held in foreign currencies	–	(12.4)	(12.4)
Cash and cash equivalent at the beginning of the financial period	885.5	1,005.0	1,890.5
Cash and cash equivalents at the end of the year	1,309.2	–	1,309.2

D. 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 31 December 2022 or 31 December 2021.

19. Events occurring after the reporting period

Final dividend declared

The Pepper Money Limited Board declared a fully-franked final dividend of $0.051 per share on 23 February 2023. The Record Date is 14 March 2023 and the payment date will be 14 April 2023.

The dividend has not been provided for in this financial report.

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.

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 consolidated financial statements of Pepper Money Limited (as defined in Note 2) including the Notes set out on pages 82 to 151:

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

(ii) comply with International Financial Reporting Standards and other mandatory professional reporting requirements; and

(iii) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors

Michael Culhane
Chair

23 February 2023

Independent Auditor's Report

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

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www.deloitte.com.au

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Pepper Money Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

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

- Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 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 report.

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

Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Expected credit loss provisioning As at 31 December 2022, the Group has recognized $122.2m of expected credit loss (ECL) provisions on loans and advances held at amortised cost in accordance with AASB 9 Financial Instruments as disclosed in Note 4(B).	Our procedures, in conjunction with our specialists, included, but were not limited to: • Obtaining an understanding of credit risk judgements made by management in the ECL models; • Testing the design and implementation of relevant key controls in relation to loan originations, collections and arrears management as well as controls over the use and review of AASB 9 ECL models;

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Loans and advances subject to provisioning include both the residential mortgage lending and asset finance portfolio.
 	
Significant management judgement was necessary in determining expected credit losses, including:
 	
• The application of the requirements of AASB 9 as reflected in the Group's ECL models, particularly in light of the current macroeconomic environment, including the ongoing rise in interest rates and inflation;
• Assumptions used in the ECL models such as the financial condition of the counterparty, repayment capacity and forward-looking macroeconomic factors, as disclosed in Note 7(B); and
 	
Management judgements used in the calculation of overlays to the ECL models.
	• Assessing the continuing appropriateness of key judgements and assumptions exercised by management, including:
	   o timing and recognition of loss event and significant increase in credit risk;
	   o timing of expected cash flows; and
	   o assumptions used in modelling including Probability of Default ("PD"), Loss Given Default ("LGD") and, in particular, forward-looking assumptions and scenarios;
	• Testing the accuracy of modelled PDs and LGDs against historical loss;
	• Testing the mathematical accuracy of the ECL models through re-performance on a sample of loans;
	• Identifying key inputs used in calculation of collective provisions, and testing a sample of the source data for completeness and accuracy;
	• Challenging management's judgements in respect overlays recognised due to the macroeconomic factors, and current macroeconomic environment.
	
	We also assessed the appropriateness of the disclosures in Note 7(B) to the financial statements.

Interest income recognition The Group reported interest income of $955.4m for the year ended 31 December 2022 which includes interest income of $254.8m on the asset finance portfolio. As disclosed in Note 4(A), interest income earned on loans and advances is calculated using the effective interest rate ('EIR') method as required by AASB 9 Financial Instruments. Determination of EIR requires management to exercise significant judgements in determining the period over which cash flows from the loans are expected to be received and identifying and allocating various types of fees associated with loans.	Our procedures included, amongst others: • Understanding and evaluating the IT systems and control environment for recording revenue transactions; • Evaluating the design and implementation of relevant controls relating to the estimation of the EIR; • Assessing the rationale of significant judgements made, in particular with respect to the expected life of loans as well as the appropriate inclusion or exclusion of fees and expenses in estimation of EIR; • Recalculating the interest income using the EIR method on a sample of loans; and • Agreeing, a sample basis, key inputs in management's calculations to underlying source data such as, signed loan agreements and bank statements. We also assessed the appropriateness of the disclosures in Note 4(A) to the financial statements.
Stratton Finance Acquisition – Business Combinations As disclosed in Note 17, the Group acquired 65% ownership interest in Stratton Finance Pty Limited ("Stratton") on 01 July 2022 for a cash consideration of $76.4m. The transaction has been accounted for in accordance with AASB 3 Business Combinations using acquisition method of accounting which include a number of significant and complex	In conjunction with our valuation and financial reporting specialists our procedures included, but were not limited to: • Obtaining detailed understanding of the transaction including its governing terms and conditions as stipulated in various agreements; • Review of management's assessment of the application of AASB 3 to the transaction; and • Evaluate the work performed by management and management experts, including independence and competence, with respect to the purchase price allocation assessment.

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judgements in determination of the fair value of assets and liabilities acquired. The primary elements of the valuation and purchase price allocation process was to assess the fair value of Intangibles acquired (Note 9(B)) as well as the determining fair value of the non-controlling interest (NCI) at the acquisition date (Note 17(B)(d)).	We also assessed the appropriateness of the disclosures in Note 17 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2022, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate,

to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 50 to 81 of the Financial Report for the year ended 31 December 2022.

In our opinion, the Remuneration Report of Pepper Money Limited, for the year ended 31 December 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
Chartered Accountants

Sydney, 23 February 2023

Shareholder Information

Additional information required by the ASX and not disclosed elsewhere in the report is set out below. The information is current as at 31 January 2023.

Opting in for electronic communication

37.58% of our shareholders have opted in to receive electronic communications. Consistent with our commitment to reduce paper consumption and in turn our environmental footprint, we encourage more shareholders to opt-in for electronic communications.

Number of holders of equity securities

Ordinary share capital: 439,677,986 paid ordinary shares are held by 3,545 shareholders.

Voting rights

All issues ordinary shares carry one vote, and each member is entitled to one vote for every ordinary share held via poll or show of hands as permitted under the Company's constitution.

Distribution of members of their holdings

The number of equity securities by size of holding is set out below:

Holdings Ranges	Holders	Total Units	%
1 – 1,000	1,503	700,433	0.16
1,001 – 5,000	1,026	2,854,926	0.65
5,001 – 10,000	429	3,329,026	0.76
10,001 – 100,000	536	15,670,162	3.56
100,001 – 999,999	51	417,123,439	94.87
Totals	**3,545**	**439,677,986**	**100.00**

Unmarketable Parcel

As at 31 January 2023 there were 276 holdings of less than a marketable parcel (less than $500 in value or 322 shares based on the market price of $1.55 per share) which is approximately 0.01147% of the total holding of ordinary shares.

Substantial shareholders

The names of the substantial shareholders of the Company and the number of equity securities in which they have a relevant interest as disclosed in substantial shareholding notices given to the Company are set out below:

Shareholder	Number of shares	%
Pepper Group ANZ Holdco Limited	266,309,851	60.569%
AustralianSuper Pty Ltd	40,630,247	9.24%

Pepper Money Twenty largest shareholders

The 20 largest shareholders of ordinary shares on the Company's register at 31 January 2023 were:

Shareholder	Number of shares	%
Pepper Group ANZ Holdco Limited	266,309,851	60.569%
J P Morgan Nominees Australia Pty Limited	48,450,379	11.020%
National Nominees Limited	27,152,555	6.176%
HSBC Custody Nominees (Australia) Limited	14,798,678	3.366%
Citicorp Nominees Pty Limited	13,211,412	3.005%
Netwealth Investments Limited <Wrap Services A/C>	11,346,361	2.581%
BNP Paribas Noms Pty Ltd <DRP>	9,976,696	2.269%
HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	4,003,540	0.911%
UBS Nominees Pty Ltd	3,981,758	0.906%
Brispot Nominees Pty Ltd <House Head Nominee A/C>	2,409,634	0.548%
Denise Aoun	2,387,234	0.543%
Neweconomy Com Au Nominees Pty Limited <900 Account>	2,105,763	0.479%
Merrill Lynch (Australia) Nominees Pty Limited	1,845,702	0.420%
Mr David Moore <D & S Moore Family A/C>	800,000	0.182%
John Williams	637,858	0.145%
Sue Kent	618,964	0.141%
Sally Jane Thompson	595,501	0.135%
Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	419,083	0.095%
Warragal Holdings Pty Ltd <Gole Family A/C>	323,334	0.074%
HSBC Custody Nominees (Australia) Limited – A/C 2	319,472	0.073%
% Total of Securities of Top 20	**411,693,775**	**93.635%**
Total of Securities	**439,677,986**	

Managing your shareholding

The Company's share register is managed by BoardRoom Pty Ltd (BoardRoom).

The Investor Centre website (https://www.pepper.com.au/investors/shareholders) is the fastest, easiest, and most convenient way to view and manage your shareholding.

The Investor Centre enables a shareholder to:

- view the company share price;
- change your address (for non-CHESS sponsored holdings);
- update your dividend instruction;
- update your Tax File Number (TFN) Australian Business Number (ABN) or exemption;
- select your email and communication preference; and
- view your transaction history.

When communicating with BoardRoom or accessing your holding online you will need your Securityholder reference number (SRN), or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

You can also access BoardRoom by:

Website: https://boardroomlimited.com.au/

Address: Level 8,
210 George Street
Sydney NSW 2000

Post: GPO Box 3993
Sydney NSW 2001

Contact: 1300 737 760 (in Australia)
+61 2 9290 9600 (International)

Information on Pepper Money Limited

Pepper Money website

Up-to-date information on the Company can be obtained from the Company's website www.pepper.com.au

Securities exchange listing

The Company's shares are listed on the Australian Securities Exchange (ASX) and the Home Exchange is Sydney. Ordinary shares are traded under the code, ASX: PPM

Share prices can be accessed from the Investor Centre, major Australian newspapers, or at: https://www2.asx.com.au

Glossary of Terms

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
Asset Finance	a segment of Pepper Money product, as defined in Section 2 of the Operating and Financial Review
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 (4th Edition, 2019)
AUM – Lending closing	assets under management originated and serviced (securitised and Pepper Money balance sheet lending)
AUM – Servicing closing	assets under management portfolios of third parties which are serviced by Pepper Money
Board or **Board of Directors**	the Board of Directors of the Company
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 licenced assets
Company	Pepper Money Limited (ACN 094 317 665)
CGS	Corporate Governance Statement as per Section 7 of the Operating and Financial Review
Corporations Act	*Corporations Act 2001* (Cth).
CPR	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
Director	a member of the Board
Distribution Partners	Pepper Money's network of distributors
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
Effective Interest Rate	an annual interest rate that takes into account the effect of compound interest and fees
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 the 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.

Term	Meaning
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.
Expected Credit Losses	as defined in the Financial Statements
FTE	full time equivalent
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 the Financial Statements
GST	goods and services tax imposed in Australia
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.
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
Listing	admission of the Company to the official list of ASX
Loan and Other Servicing	A segment that 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
LPF	loan protection fee
LTVR	long term variable remuneration
LVR	loan to value ratio
Management	current management employees of the Company
Mortgages	a segment of Pepper Money product, as defined in Section 2 of the Operating and Financial Review
MPF	mortgage protection fee
Non-Conforming or **Non-Prime**	home loans not adhering to the traditional standard lending criteria of ADIs.
NCI	Non-controlling interest
Non-Executive Director	a member of the Board of Directors who does not form part of Management
Non-IFRS financial measures	measures used to manage and report on the business that are neither recognised under AAS or IFRS but that are included as in the Directors opinion they are considered useful for the users of this Annual Report
NIM	net interest margin: interest charged on loans provided to borrowers (Mortgages and Asset Finance), income from mortgage risk fee (MRF) / loan protection fee (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 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)
NIM %	net interest income divided by average lending AUM expressed on an annualised basis
NPAT	net profit after tax
Originations	new loans originated during the period
PCP	refers to prior comparative period being December 2021

Term	Meaning
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)
Prime	home loans adhering to the traditional standard lending criteria of an ADI
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
PRS	Pepper Residential Securities
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.
RMBS	residential mortgage-backed securities
ROE	return on equity
SARS	Service Share Appreciation Rights, as defined in Section 3.6 of the Remuneration Report
Service Rights	As defined in Section 3.6 of the Remuneration Report
Servicing AUM	as defined in Section 2 of the Operating and Financial Review
Share Registry	Boardroom Pty Limited (ABN 14 003 209 836)
Shareholder Representative Director	each of Michael Culhane and Des O'Shea
STVR	short term variable remuneration
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
VWAP	volume weighted average price
WANOS	weighted average number of shares for the period 1 January to 31 December
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 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 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

Corporate Directory

Secretary

John Williams

Principal registered office in Australia

Level 27, 177 Pacific Highway
North Sydney NSW 2060

Share register

BoardRoom Registry

Auditor

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000
+61 (0) 2 9322 7000

Other information

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

Investor Relations

Contact: Gordon Livingstone
Phone: +61 (0) 417 695 138
Email: glivingstone@reunioncapital.com.au

Website

www.pepper.com.au