pepper money

Appendix 4D

Company details

Name of entity:	Pepper Money Limited
ACN:	094 317 665
ABN:	55 094 317 665
Reporting period:	For the half-year ended 30 June 2023 (the "period")
Prior comparative period:	For the half-year ended 30 June 2022 ("PCP")

Results for announcement to the market

All comparisons to half-year ended 30 June 2022:

Statutory Results				**$M**
Net interest income	Down	3.9%	to	184.9
Total operating income	Down	2.5%	to	193.5
Net profit after income tax	Down	28.0%	to	52.0

Dividends

The Directors have approved an interim dividend in respect to the half-year ended 30 June 2023 of 3.5 cents per ordinary share (30 June 2022: 5.4 cents per ordinary share).

This interim dividend will be paid on 12 October 2023 to shareholders on the share register as at 12 September 2023.

	Amount per security	**Franked amount per security**
Interim 2023 dividend (declared 23 August 2023)	3.5 cents	3.5 cents
Final 2022 dividend (paid 14 April 2023)	5.1 cents	5.1 cents

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.

	30 June 2023 $	**31 December 2022 $**
Net tangible assets per ordinary share	**1.65**	1.56

Explanation of results

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

This information should be read in conjunction with the annual financial report for the year ended 31 December 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.

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

Details of associate investments and joint venture entities

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

Foreign entities

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

Audit

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

Michael Culhane
Chair
23 August 2023

Mario Rehayem
CEO and Director
23 August 2023

peppermoney

Condensed consolidated financial statements
for the half-year ended 30 June 2023

Pepper Money Limited
ASX-PPM

Contents

HIGHLIGHTS

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.

Originations

$3.5bn

(38)% vs PCP[1]
(12)% vs 2H 2022

Total AUM[2]

$18.9bn

(2)% vs June 2022
(1)% vs December 2022

Net Interest Margin

2.06%

(23)bps on PCP
(5)bps on 2H 2022

Pro-forma NPAT

$52.0m

Down (29)% PCP

Asset Finance Originations

$1.8bn

+19% vs PCP
+37% vs 2H 2022

Asset Finance AUM

$5.6bn

+32% vs June 2022
+19% vs December 2022

Credit Quality Loan Loss[3] % AUM

0.28%

Versus 0.26% 2H 2022

Interim Dividend Fully franked

3.5c per share

5.1% annualised yield

Mortgages Originations

$1.7bn

(58)% vs PCP
(36)% vs 2H 2022

Mortgages AUM

$12.4bn

(12)% vs June 2022
(8)% on December 2022

Funding

$3.1bn

Public securitisation
Up 22% on PCP

1. PCP: prior comparable period being 1 January 2022 – 30 June 2022.
2. Closing AUM as at period end. Total AUM includes Servicing (1H2023: $0.9 billion).
3. Excluding Post Model Overlay

Directors' Report

The Directors of Pepper Money Limited ("Pepper Money" or the "Company") present their report, together with the interim financial statements of Pepper Money Limited and its controlled entities ("the Group") for the half-year ended 30 June 2023 ("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.

To comply with the provisions of the Corporations Act 2001, the Directors' Report is as follows:

Directors

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

- **Michael Culhane:** Chair and Shareholder Representative.
- **Mario Rehayem:** Chief Executive Officer, Pepper Money Limited.
- **Des O'Shea:** Non-Executive Director and Shareholder Representative.
- **Mike Cutter:** Independent Non-Executive Director.
- **Akiko Jackson:** Independent Non-Executive Director.
- **Justine Turnbull:** Independent Non-Executive Director.
- **Rob Verlander:** Independent Non-Executive Director.

Company Secretary

John Williams.

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 2000 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. In the six months to 30 June 2023 no Pro-forma adjustments were recorded (1H 2022: $0.9 million reflecting the one-off adjustments incurred in the period of the acquisition of Stratton Finance Pty Ltd, completed 1 July 2022).

Results and review of operations

For the half-year ended 30 June 2023, the Group reported Statutory and Pro-forma **Net Profit After Tax** ("NPAT") of $52.0 million, down (29)% compared to Pro-forma NPAT for 1H 2022 (prior comparative period, "PCP") and (28)% when compared to PCP Statutory NPAT.

Total Operating Income for the first half of 2023 of $193.5 million declined (3)% on PCP. This was driven by the provision for Loan Losses, which increased by $(10.8) million, as first half 2022 included a writeback of $7.5 million for Asset Finance post model overlay. Normalising for the writeback, Loan Loss provisions of $(24.7) million for the period increased (14)% on PCP. This reflected the growth in Asset Finance lending where AUM increased 32% on June 2022. **Total Operating Income,** after normalising for Loan Loss provisions released in 1H 2022, decreased (1)% on PCP. When compared to 2H 2022, **Total Operating Income** declined (8)%, reflecting the slowdown in Mortgages originations (Mortgage Operating Income declining by $(16.5) million versus 2H 2022), coupled with an increase in Loan Loss expense of $(5.3) million given Asset Finance AUM growth, which was partially offset by higher Net Interest Income of $4.1 million for Asset Finance. As the impact of macro-economic conditions, including high interest rates and ongoing inflationary pressures, are yet to be fully reflected in consumers' disposable income, a total post model overlay of $15.8 million ($13.0 million in respect to the Mortgage business) is being held in the advent of increased hardships. At 30 June 2023, **Loan Losses as a percent of AUM**, excluding post model overlay, of 0.28% continued to hold within the range of the long term average. The marginal increase of 2bps on 2H 2022 was due to the growth of Asset Finance as an overall percent of business mix.

Total Pro-forma expenses, including Depreciation and Amortisation and Corporate Interest, were $122.4 million in the period compared to $93.8 million for the six months to June 2022. The increase versus PCP reflects the annualisation of expenses following the acquisition of Stratton Finance Pty Ltd effective 1 July 2022. Versus the six months to December 2022, which included six months of Stratton, **Total Pro-forma expenses** increased (10)%, in line with salary and wage and general cost inflation and due to increased Corporate Interest expense of (36)% given BBSW / BBSY[1] movements.

Macro-economics

Pepper Money has carefully considered the market conditions, which are being impacted by macro-economic uncertainty, in preparing the financial statements for the half-year ending 30 June 2023, including the application of critical estimates and judgements. In line with the year ending 31 December 2022, the main impact on the financial statements was the provision for expected credit losses.

In assessing market conditions over the period Pepper Money has:

- updated the macro-economic scenarios used in modelling expected credit losses, the relative weightings of base to downside and severe cases applied, and the evaluation of certain specific industry overlays, taken historically.
- retained provisions raised in prior periods while maintaining a prudent provision coverage to cater for ongoing uncertainty of the current market, macro-economic and geo-political conditions.

As at 30 June 2023, the Group maintained a Post Model Overlay of $15.8 million (Mortgages: $13.0 million, Asset Finance: $2.8 million) for potential future economic loss directly related to the impacts from macro-economic conditions (31 December 2022: $19.8 million total). The current coverage remains adequately provisioned to withstand future losses and continues to reflect a cautious approach to managing risks given ongoing market conditions.

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

1. BBSW: Australian Bank Bill Swap Rate. BBSY: Australian Bank Bill Swap Bid Rate

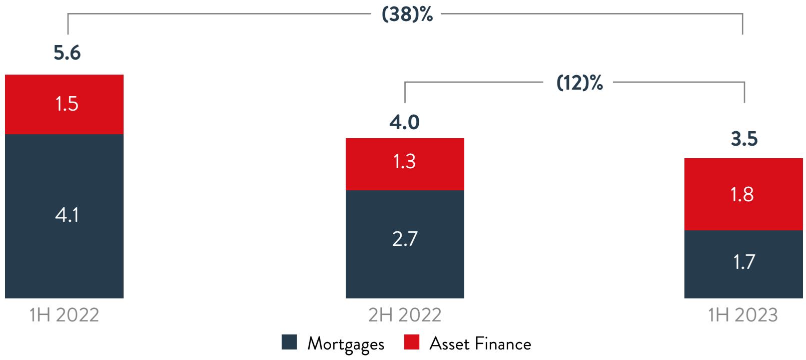
Summary financial results

$ Million	1H 2023 Statutory and Pro-forma	2H 2022 Pro-forma	% Change[2] Pro-forma	1H 2022 Pro-forma	Change Pro-forma	% Change[3] Pro-forma
Net interest income	**184.9**	196.5	(6)%	192.5	(7.6)	(4)%
Other operating income	**33.3**	32.7	2%	19.8	13.5	68%
Loan losses	**(24.7)**	(19.4)	(27)%	(13.9)	(10.8)	(78)%
Total operating income	**193.5**	**209.7**	**(8)%**	**198.4**	**(5.0)**	**(3)%**
Employee benefits expense	**(65.0)**	(62.2)	(5)%	(51.8)	(13.3)	(26)%
Marketing expense	**(7.8)**	(8.1)	3%	(5.7)	(2.1)	(37)%
Technology expense	**(12.1)**	(12.3)	1%	(11.5)	(0.6)	(5)%
Other operating expenses	**(13.9)**	(9.6)	(45)%	(10.1)	(3.8)	(37)%
Depreciation and amortisation expense	**(11.9)**	(10.5)	(14)%	(10.0)	(1.9)	(19)%
Corporate interest expense	**(11.7)**	(8.6)	(36)%	(4.7)	(7.0)	(148)%
Tax expense	**(19.1)**	(29.7)	36%	(31.5)	12.4	39%
Net profit after income tax	**52.0**	**68.9**	**(25)%**	**73.1**	**(21.1)**	**(29)%**
Equity Holders of PepperMoney Limited	**53.0**	**69.4**	(24)%	**73.1**	**(20.1)**	(28)%
Non-controlling interest	*(1.0)*	*(0.5)*	–	–	*(1.0)*	

2. % Change is versus 2H 2022 are presented as positive/better or (negative/worse) based on value contribution.
3. % Change is versus 1H 2022 (PCP) are presented as positive/better or (negative/worse) based on value contribution.

Financial and business performance

Originations ($ billion)



Originations of $3.5 billion, (38)% below PCP

Mortgages: the impact of 12 interest rate rises from May 2022 to June 2023 coupled with low housing stock (supply), weak consumer confidence, and intense competition from the major banks, resulted in Mortgages originations reducing from a record $4.1 billion reported in 1H 2022 to $1.7 billion in 1H 2023, a decline of (58)%. Business focus was on margin, with Non-Conforming Mortgages contributing 65% of the originations mix in the period, versus 45% in 1H 2022.

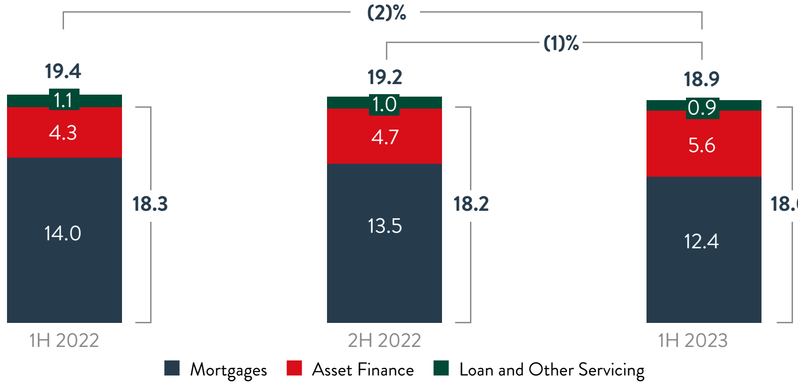
Asset Finance: grew originations to $1.8 billion, +19%, on PCP. Commercial originations grew 5% on PCP, while Novated Lease originations of $0.4 billion represented a growth of 297% on 1H 2022. Consumer originations declined by $(0.07) billion. Tier A (clear credit history) originations grew 56% on PCP to $1.1 billion, with Tier B originations at $0.5 billion up 12% over the same period. Tier C originations were $0.2 billion, +18% on PCP.

Versus 2H 2022, Originations of $3.5 billion were (12)% lower

Mortgages: originations reduced by $(1.0) billion, (36)% on 2H 2022. The focus for the business moved to driving Non-Conforming Mortgages, which contributed 65% of the originations mix in the period, versus 53% in 2H 2022.

Asset Finance: originations grew 37% on 2H 2022. The ongoing growth of the Novated Lease product was further evident with the mix of originations at 24% up from 13% in 2H 2022. Tier A originations mix of 63% grew from 56% in 2H 2022.

Assets Under Management (AUM)[4] ($ billion)



Total AUM of $18.9 billion down (2)% on PCP

Lending AUM remained resilient – only marginally decreasing by $(0.3) billion on June 2022 to close June 2023 at $18.0 billion.

Mortgages AUM decreased $(1.7) billion (-12%) to $12.4 billion – driven by origination slow down and higher attrition given the rising interest rates and intense competition from the banks to gain share.

Asset Finance AUM increased $1.4 billion (+32%) to a record $5.6 billion, as the business outpaced the system to grow 3 times 1H 2023 over 1H 2022 close.

Including **Servicing AUM** of $0.9 billion, **Total AUM** closed June 2023 at $18.9 billion.

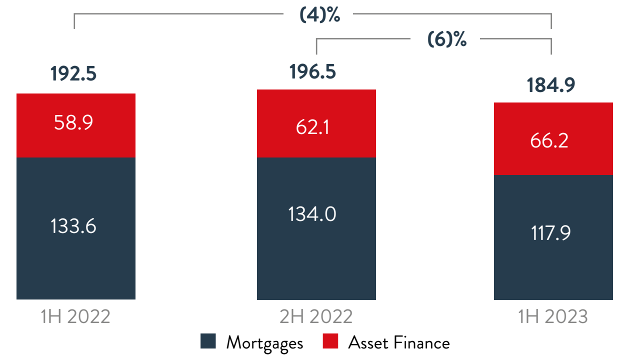
Versus 31 December 2022 Total AUM declined by $(0.3) billion equating to (1)%

Lending AUM only decreased by $(0.3) billion on December 2022 with growth in Asset Finance (+$0.9 billion) supporting the decline in Mortgages (-$1.1 billion).

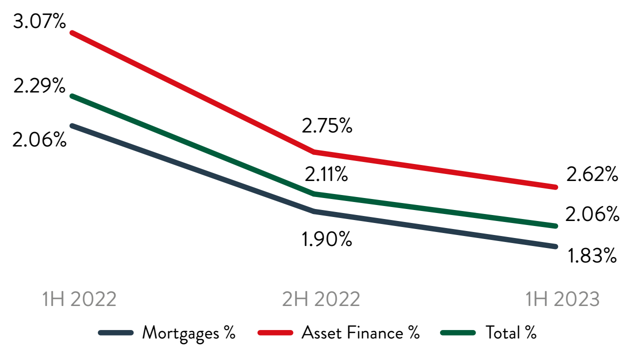
4. Figures reported for AUM are closing AUM – Lending and Servicing.

Net Interest

Net Interest Income ($ million)



Net Interest Margin (%)



Net Interest Income of $184.9 million[5] declined (4)% on PCP

Mortgages Net Interest Income of $117.9 million for the half declined (12)% on PCP reflecting the slowdown in originations over the last 12 months given market conditions, with strong competition impacting customer rates, rising swap rates, volatility in BBSW, higher funding costs and an increase in customer attrition. The downward trend on Net Interest Income was partially offset through pricing following Reserve Bank of Australia (RBA) rate rises.

Asset Finance Net Interest Income increased by 12% on PCP to $66.2 million, as record volume growth offset the adverse impact of rising swap rates and funding margins, which were partially protected by price increases.

Versus 2H 2022 Net Interest Income declined by (6)%

Mortgages Net Interest Income declined by $(16.1) million, (12%) on 2H 2022 as declining volumes coupled with higher funding costs was only partially offset by increased contribution from Non-Conforming.

Asset Finance Net Interest Income increased by 7% on 2H 2022 to $66.2 million, as adverse movement in swap rates/ funding costs as well as business mix shift to lower margin Novated Leasing product was fully offset through strong volume growth and targeted price increases.

Net Interest Margin (NIM) of 2.06% down (23)bps on PCP

Mortgages NIM of 1.83% was down from 2.06% in the first half of 2022. Back/front book price increases were implemented as the RBA continued to increase the official cash rate (OCR), only partially helped to offset the lag between BBSW rises and reducing AUM. NIM was further impacted by increased cost of funds as funding spreads return to longer term averages from the lows experienced over the latter half of 2020 and 2021, and higher customer attrition.

Asset Finance NIM reduced by (45)bps on PCP. Ongoing volatility in swap rates, coupled with increased cost of funds, drove a decline in margin. While funding costs/swap rates were partially recovered through pricing initiatives, Novated Lease as a percent of overall mix also had the impact of lowering NIM.

Versus 2H 2022 Net Interest Margin (NIM) was down (5)bps

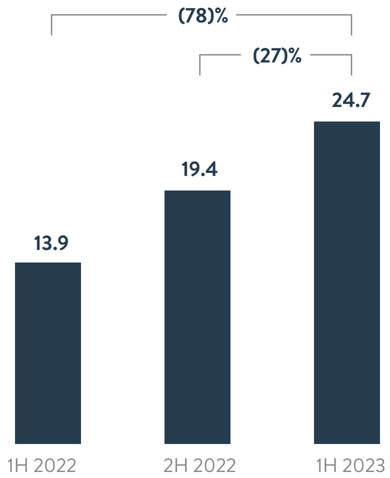
Mortgages NIM of 1.83% only declined (7)bps versus 2H 2022 as margin compression starts to stabilise as price increases implemented in line with the movement in RBA OCR and funding costs.

Asset Finance NIM reduced (13)bps on 2H 2022 driven by increased funding margins coupled with increased contribution to overall mix from Novated Lease only partially offset by increases to borrower rates.

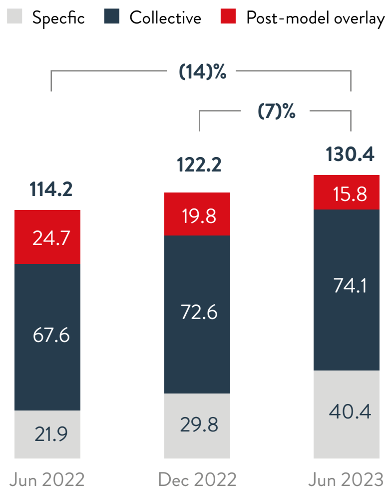
5. Loan and Other Servicing segment net interest is not displayed in the bar chart due to materiality.

Credit Quality

Total Loan Loss Expense ($ million)



Total Loan Loss Provision ($ million)



Loan Losses (excluding Post Model Overlays) as % of AUM

Loan Loss expense increased (78)% on PCP

After normalising for a $7.5 million post model writeback in 1H 2022 the underlying increase in Loan Loss expense was (15)% on PCP. The increase corresponds directly to volume growth in Asset Finance where AUM grew 32% on PCP.

Loan Loss provision increased (14)% on PCP

Specific Provisions increased from $21.9 million to $40.4 million driven by an increase in insolvencies in January and June impacting Asset Finance. The increase in insolvencies is in line with seasonal trends. As Government insolvency protections implemented under COVID-19 were removed at the start of the year the trend has reverted to pre COVID-19 averages.

Collective Provisions increased by $(6.5) million on PCP to $74.1 million reflecting the strong AUM growth in Asset Finance.

Post Model Overlay reduced by $10.1 million on PCP, reflecting the wind down of Asset Finance COVID-19 post model overlays over the second half of 2022.

Versus PCP Loan Losses as % of AUM increased (10)bps

The increase in Total Loan Losses as a % of AUM on 2H 2022 was driven by mix – with Asset Finance as a % of overall AUM increasing half on half. Underlying credit quality remains constant.

Asset Finance % Loan Losses increased (41)bps on PCP as the business returns to the long term averages experienced pre COVID-19.

Versus 2H 2022 Loan Loss expense increased (27)%

Loan Loss expense of (27)% on 2H 2022 was in line with Asset Finance AUM growth.

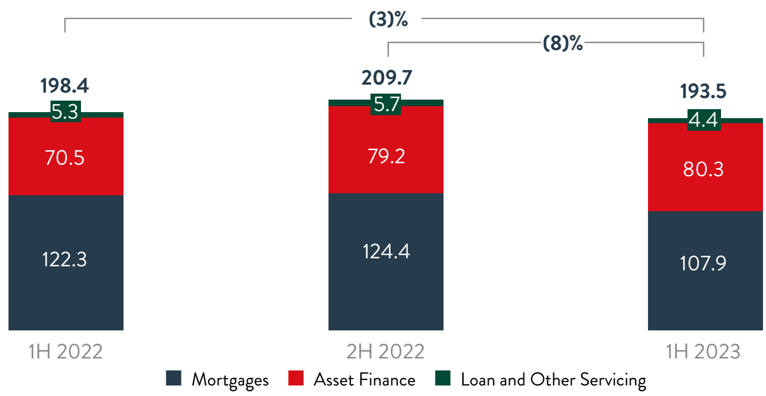
Versus 2H 2022 Loan Loss provision increased (7)%

Movement in provisions since December 2022 are the result of the aforementioned insolvencies impacting Asset Finance Specific Provision and the strong AUM growth in Asset Finance adding to Collective Provisions.

Versus 2H 2022 Loan Loss as % AUM increased (2)bps

The increase in Total Loan Loss % of AUM versus 2H 2022 was mix driven by the growth in Asset Finance. Mortgage % Loan Losses remains unchanged at 0.04%.

Total Operating Income[6] ($ million)



Total Operating Income at $193.5 million was (3)% lower than PCP

Mortgages Operating Income of $107.9 million was down (12%) on PCP given volume slowdown and ongoing NIM compression. Given the reduction in AUM, credit expense reduced $1.5 million on PCP with coverage remaining stable at 0.04%[7].

Asset Finance Operating Income grew by 14% on PCP to $80.3 million as the business continues to drive scale and gain share. While credit expenses increased given volume growth, after normalising for the post model writeback of $5.0 million in 1H 2022, coverage at 1.0% is in line with long-term averages.

Given portfolio diversification, business mix shifted to capture growth opportunities in Asset Finance given soft market conditions in Mortgages. In the first half of 2023 Mortgages contributed 56% (1H 2022: 62%) of **Total Operating Income** and Asset Finance contribution grew to 41% of **Total Operating Income**, up from 36% in 1H 2022.

Loan and Other Servicing Operating Income at $4.4 million was down $(0.9) million versus PCP given loan run-off from some of the Servicing portfolios. Income from the Broker Administration business remained flat on PCP.

Total Operating Income declined (8)% on 2H 2022

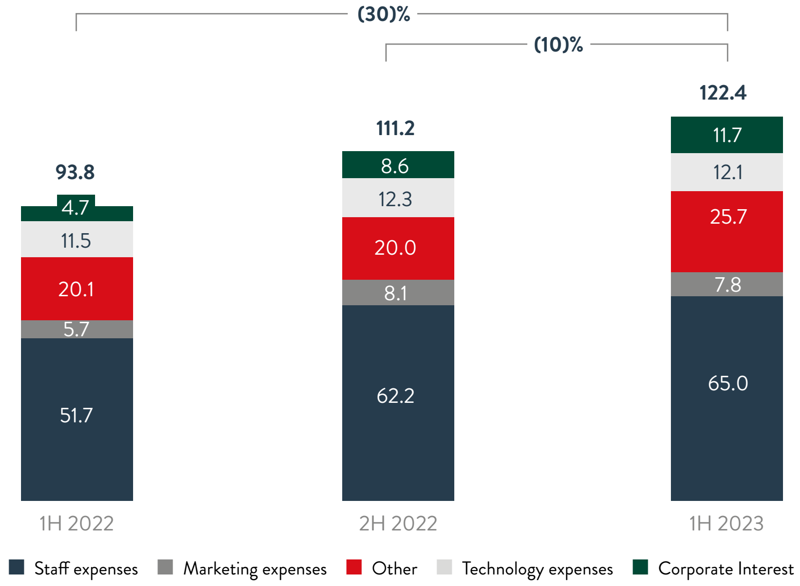
Mortgages Operating Income declined (13)% on the second half of 2022 as volumes reduced given market conditions was managed through product mix and price changes.

Asset Finance Operating Income was up 1% .

Loan and Other Servicing Operating Income fell (22)% driven by lower servicing volumes.

6. Total Operating Income: chart does not show Corporate segment as not material, but is included in the total.
7. Coverage refers to relevant segment Loan Losses (excluding post model overlay) as % AUM.

Pro-forma Expenses ($ million)



Pro-forma Total Expenses of $(122.4) million increased (30)% on PCP

The increase in **Total Expenses** versus PCP reflects the annualisation of expenses following the acquisition of Stratton Finance Pty Limited effective 1 July 2022. Normalising for Stratton, **Operating Expenses**[8] grew (4)% on PCP, with Employee benefit expense increasing (3)%, and **Total Expenses**[9] grew (11)% on PCP driven by the increase in Corporate Interest (-$6.9 million) as a result of volatility in BBSY/BBSW.

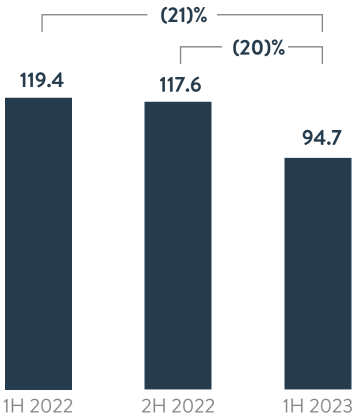
Versus 2H 2022 Expenses increased (10)%

Operating Expenses grew 7% half on half, with Employee Benefit expense increasing 5% – reflecting underlying salary and wage inflation. **Total Expenses** grew (10)% on PCP driven by the increase in Corporate Interest (-36%) due to volatility in BBSY/BBSW.

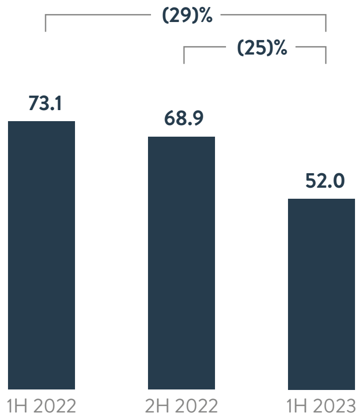
8. Operating expenses: Pro forma Expenses excluding Depreciation and Amortisation and Corporate Interest expense.
9. Total Expenses: Operating Expenses plus Depreciation and Amortisation and Corporate Interest expense.

Profitability ($ million)

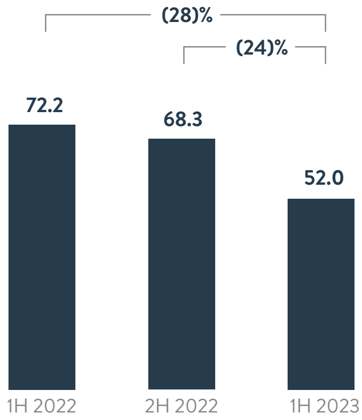
EBITDA



Pro forma NPAT



Statutory NPAT



EBITDA of $94.7 million (21)% below PCP

While adverse market conditions in Mortgages were partially offset by record volume growth in Asset Finance, NIM compression, increased Loan Loss expense given Asset Finance AUM growth, coupled with the annualisation of Stratton operating expenses resulted in EBITDA contracting by (21)% on PCP and (20)% on 2H 2022.

Pro forma NPAT of $52.0 million (29)% below PCP

Adding the increase to D&A[10] over 1H 2022 due to the amortisation of acquired Intangibles and the increase in Corporate Interest expense to the reduction in EBITDA, Pro forma NPAT contracted (29)% on PCP and (25)% on 2H 2022.

Statutory NPAT $52.0 million

(28)% below PCP and (24)% below 2H 2022.

10. D&A refers to Depreciation and Amortisation.

Funding and capital

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

Funding: the following funding channels are used to support Pepper Money's lending activities:

- **Public Term securitisations:** loans that are initially funded via a warehouse facility can be pooled together and refinanced by being sold to a new funding vehicle that issues limited-recourse asset-backed securities to public market investors.
- **Whole loan sales:** Pepper Money can create additional funding capacity by selling specific pools of mortgage loans that allows the release and recycle of capital.
- **Sustainable bonds:** including Green and Social bonds – which are bonds where Pepper Money uses the net proceeds to finance/ refinance the purchase of existing Pepper Money originated mortgage loans that are aligned to the Green Bond Principles (GBP) and Social Bond Principles (SBP).
- **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.
- **Private Term securitisation:** funding transactions that are similar to Public Term Securitisations, which result in Pepper Money raising funds from a single investor or a small number of investors.

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

- **PRS 35** was settled on 24 February 2023 and is a domestic non-conforming mortgage issue with a total issuance size of **$1.0 billion**.
- **PRS 36** was settled on 4 May 2023 and is a domestic non-conforming mortgage issue with a total issuance size of **$675.0 million**.
- **SPARKZ 6** was settled on 18 May 2023 and is a domestic car and equipment asset-backed issuance of **$723.3 million**.
- **PRS 37** was settled on 30 May 2023 and is a domestic non-conforming mortgage issue with a total issuance size of **$675.0 million**.

During the period, Warehouse facility limits were reduced by $(647.2) million, bringing total Warehouse capacity as at 30 June 2023 to $10.3 billion, excluding Pepper Money notes, down (6)% from 31 December 2022.

A further $733.5 million was added in Private term securitisations during the period.

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.

As at 30 June 2023, $155.0 million (31 December 2022: $145.0 million) of the Corporate Debt Facility of $200.0 million was drawn.

As at 30 June 2023, the total value of outstanding notes of Pepper Money's Debt Issuance program was $120.0 million (31 December 2022: $120.0 million).

The Group, at 30 June 2023, had $78.8 million in unrestricted cash (31 December 2022: $114.3 million).

Consolidated Balance Sheet (extract)

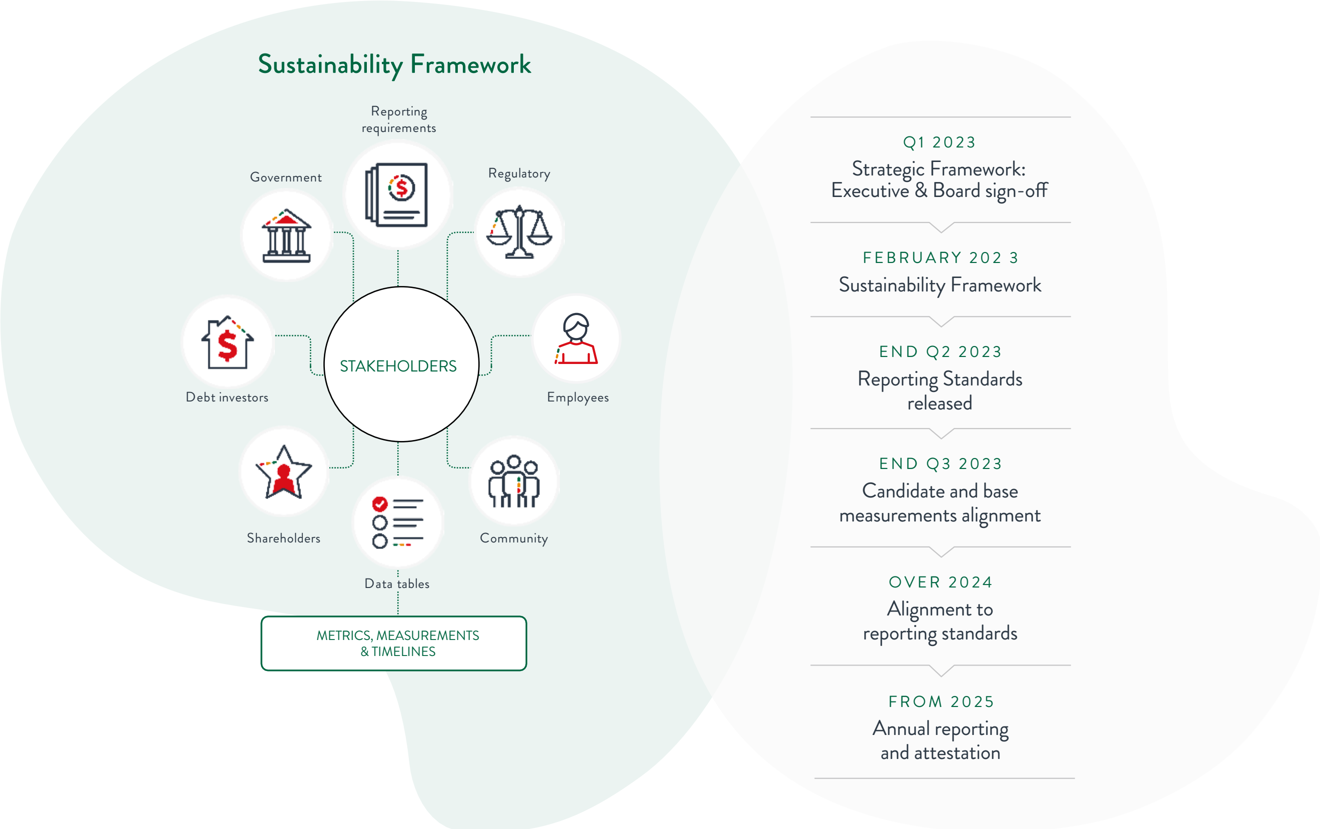
$ Million	30 June 2023	31 December 2022
Assets		
Cash and cash equivalents	**1,110.6**	1,243.6
Receivables	**15.5**	10.3
Loans and advances	**18,129.3**	18,327.8
Derivative financial assets	**140.9**	134.0
Other financial assets	**19.6**	19.4
Other assets	**10.1**	9.0
Deferred tax assets	**4.0**	4.0
Property, plant and equipment	**31.7**	19.0
Goodwill and intangibles	**147.1**	152.3
Total assets	**19,608.8**	**19,919.4**
Liabilities		
Trade payables	**11.9**	13.4
Current tax	**7.9**	24.5
Provisions	**23.2**	24.8
Borrowings	**18,644.2**	18,979.2
Derivative liabilities	**4.3**	3.3
Other liability categories	**32.4**	22.8
Deferred tax liabilities	**8.4**	10.1
Total liabilities	**18,732.3**	**19,078.1**

The Group had loans and advances as at 30 June 2023 of $18.1 billion (31 December 2022: $18.3 billion), reflecting a (1)% net portfolio change on December 2022 close. The Group originated $3.5 billion in new financial assets in the period. The asset growth was financed by the issuance of four Public term securitisation issues totalling $3.1 billion and a further $733.5 million in Private term securitisations. Warehouse capacity was reduced by $(647.2) million.

Sustainability

Pepper Money defines sustainability as the strategies and activities 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 recognises the importance of establishing and integrating stakeholder engagement into strategic and operational governance and decision-making processes in relation to sustainability. Pepper Money's **Sustainability Framework** incorporates the Company's values-led culture and has been informed by the Materiality Assessment undertaken in line with leading practice from the Global Reporting Initiative (GRI)'s Universal Standard (GRI 3: Material Topics 2021). Pepper Money continues to evolve both the existing governance structure to define and assign responsibility across our Sustainability Framework and expand capabilities and capacity. To further this initiative, Pepper Money's Sustainability Outlook Strategy for CY2023-2027 is detailed below. This Outlook takes into the account the mandatory[11] climate-related financial disclosures to be required, starting in 2024-2025 and phased in to the 2027-2028 financial year.



11. Australian Federal Treasury Consultation Paper released 27 June 2023.

Interim dividend on ordinary shares

A fully franked interim dividend will be paid on 12 October 2023 of 3.5 cents per ordinary share. This is a payout ratio of 30.0% of Pro-forma NPAT and represents an annualised yield of 5.1%.

Events since the end of the period

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

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

Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 17 and forms part of this report.

Rounding of amounts

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

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

On behalf of the Directors of Pepper Money Limited.

Michael Culhane
Chair

23 August 2023

Mario Rehayem
CEO and Director

23 August 2023

Condensed Consolidated Financial Statements

for the half-year ended 30 June 2023

Pepper Money Limited
ASX: PPM

Contents

Auditor's Independence Declaration

Deloitte.

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

23 August 2023

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 review of the financial statements of Pepper Money Limited for the half-year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
Chartered Accountants

Independent Auditor's Report
to the Directors of Pepper Money Limited

Deloitte.

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Pepper Money Limited and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2023, and the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration as set out on pages 20 to 45.

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

- Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 Review of a *Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) ("the Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Directors' Responsibilities for the Half-year Financial Report

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

Deloitte.

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

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delarey Nell

Partner
Chartered Accountants

Sydney, 23 August 2023

Directors' Declaration

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

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

(b) the condensed consolidated financial statements of Pepper Money Limited (as defined in Note 1) including the notes set out on pages 21 to 44:

(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.

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

On behalf of the Directors

Michael Culhane
Chair

23 August 2023

Mario Rehayem
CEO and Director

23 August 2023

Condensed consolidated statement of profit or loss

	Notes	Half-year ended 30 June 2023 $M	Half-year ended 30 June 2022 $M
Interest income	2(A)	**664.3**	376.5
Interest expense[11]	2(A)	**(479.4)**	(184.0)
Net interest income[11]		**184.9**	192.5
Lending fee income	2(B)	**37.0**	36.1
Lending expense	2(B)	**(27.2)**	(27.8)
Whole loan sales gain		**3.1**	4.3
Loan losses	3(B)	**(24.7)**	(13.9)
Servicing fees and other income	2(B)	**20.4**	7.2
Total operating income		**193.5**	198.4
Employee benefits expense	2(D)	**(65.0)**	(51.8)
Marketing expense		**(7.8)**	(5.7)
Technology expense		**(12.1)**	(11.5)
General and admin expense	2(D)	**(9.6)**	(8.9)
Fair value losses on financial assets		**(4.3)**	(2.1)
Depreciation and amortisation expense		**(11.9)**	(10.0)
Corporate interest expense		**(11.7)**	(4.7)
Operating expenses		**(122.4)**	(94.7)
Profit before income tax		**71.1**	103.7
Income tax expense		**(19.1)**	(31.5)
Net profit after income tax		**52.0**	72.2
Attributable to equity holders of Pepper Money Limited		**53.0**	72.2
Attributable to non-controlling interests		**(1.0)**	–

	Notes	Cents per share	Cents per share
Earnings per share (EPS)	2(E)		
Basic (cents per share)		**11.82**	16.42
Diluted (cents per share)		**11.52**	16.09

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

11. Excludes corporate interest expense.

Condensed consolidated statement of comprehensive income

	Half-year ended	
	30 June 2023 $M	30 June 2022 $M
Net profit after tax	**52.0**	72.2
Other comprehensive income that may be recycled to profit or loss		
Currency translation movement	**(0.1)**	(0.1)
Changes in fair value of hedging instruments	**4.5**	121.0
Other reserve movement	**–**	1.8
Income tax relating to items that may be recycled to profit or loss	**(1.4)**	(36.3)
Total other comprehensive expense that may be recycled to profit or loss	**3.0**	86.4
Total comprehensive income for the period	**55.0**	158.6
Total comprehensive income attributable to:		
Owners of Pepper Money Limited	**56.0**	158.6
Non-controlling interests	**(1.0)**	–

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

Condensed consolidated statement of financial position

	Notes	As at 30 June 2023 $M	As at 31 December 2022 $M
Assets			
Cash and cash equivalents	3(A)	**1,110.6**	1,243.6
Receivables		**15.5**	10.3
Loans and advances	3(B)	**18,129.3**	18,327.8
Derivative financial assets		**140.9**	134.0
Other financial assets	3(C)	**19.6**	19.4
Other assets		**10.1**	9.0
Deferred tax assets		**4.0**	4.0
Property, plant and equipment		**31.7**	19.0
Goodwill and intangibles	7	**147.1**	152.3
Total assets		**19,608.8**	19,919.4
Liabilities			
Trade payables		**11.9**	13.4
Current tax		**7.9**	24.5
Provisions		**23.2**	24.8
Borrowings	4(A)	**18,644.2**	18,979.2
Derivative liabilities		**4.3**	3.3
Other liabilities		**32.4**	22.8
Deferred tax liabilities		**8.4**	10.1
Total liabilities		**18,732.3**	19,078.1
Total net assets		**876.5**	841.3
Equity			
Issued capital	6(A)	**729.8**	729.6
Other reserves	6(B)	**105.1**	99.8
Retained earnings		**3.2**	(27.5)
Total equity attributable to owners of Pepper Money Limited		**838.1**	801.9
Non-controlling interests		**38.4**	39.4
Total equity		**876.5**	841.3

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

Condensed consolidated statement of changes in equity

	Issued capital $M	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 2022								
Opening balance	729.3	(0.1)	8.7	3.8	(105.3)	636.4	–	636.4
Profit for the period	–	–	–	–	72.2	72.2	–	72.2
Cash flow hedge movements	–	–	84.6	–	–	84.6	–	84.6
Share-based payments	–	–	–	1.8	–	1.8	–	1.8
Total comprehensive income	–	–	84.6	1.8	72.2	158.6	–	158.6
NED shares issued	0.3	–	–	–	–	0.3	–	0.3
Dividends paid	–	–	–	–	(39.5)	(39.5)	–	(39.5)
Balance as at 30 June 2022	**729.6**	**(0.1)**	**93.3**	**5.6**	**(72.6)**	**755.8**	**–**	**755.8**
1 January 2023								
Opening balance	**729.6**	**(0.3)**	**90.3**	**9.8**	**(27.5)**	**801.9**	**39.4**	**841.3**
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**53.0**	**53.0**	**(1.0)**	**52.0**
Currency translation movements	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Cash flow hedge movements	**–**	**–**	**3.1**	**–**	**–**	**3.1**	**–**	**3.1**
Total comprehensive income	**–**	**(0.1)**	**3.1**	**–**	**53.0**	**56.0**	**(1.0)**	**55.0**
Ordinary shares issued	**0.2**	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Dividends paid	**–**	**–**	**–**	**–**	**(22.3)**	**(22.3)**	**–**	**(22.3)**
Share based payments	**–**	**–**	**–**	**2.3**	**–**	**2.3**	**–**	**2.3**
Balance as at 30 June 2023	**729.8**	**(0.4)**	**93.4**	**12.1**	**3.2**	**838.1**	**38.4**	**876.5**

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

Condensed consolidated statement of cash flows

	Notes	Half-year ended 30 June 2023 $M	Half-year ended 30 June 2022 $M
Cash flows from operating activities			
Interest received		**648.8**	337.7
Interest paid		**(468.3)**	(163.7)
Receipts from loan fees and other income		**57.5**	41.6
Payments to suppliers and employees		**(126.9)**	(122.4)
Payments of net loans to borrowers		**31.7**	(2,699.1)
Proceeds from sale of loan portfolios		**156.6**	202.6
Income taxes paid		**(39.3)**	(58.1)
Net cash inflow /(outflow) from operating activities		**260.1**	(2,461.4)
Cash flows from investing activities			
Payments for property, plant and equipment, intangibles and other assets		**(2.2)**	(4.8)
Net payments for investments		**(0.3)**	(1.3)
Net cash (outflow) from investing activities		**(2.5)**	(6.1)
Cash flows from financing activities			
Proceeds from borrowings		**6,348.8**	6,940.7
Repayment of borrowings		**(6,712.7)**	(4,472.7)
Repayment of lease liability		**(4.4)**	(4.2)
Payment of dividends	2(G)(a)	**(22.3)**	(39.6)
Net cash (outflow)/inflow from financing activities		**(390.6)**	2,424.2
Net (decrease) in cash and cash equivalents		**(133.0)**	(43.3)
Cash and cash equivalents at the beginning of the financial period		**1,243.6**	1,309.2
Cash and cash equivalents at end of period		**1,110.6**	1,265.9

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

Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation

A. Reporting entity

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

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

B. Basis of preparation

The condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments that have been measured at fair value.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the annual financial report for the financial year ended 31 December 2022.

The accounting policies are consistent with Australian Accounting Standards.

C. Statement of compliance

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

This interim financial report does not contain all disclosures of the type normally found within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the annual financial report. This report should be read in conjunction with the annual financial report for the financial year ended 31 December 2022 and any public announcements made up until the date of this interim financial report.

D. Foreign currency translation

a. Functional and presentation currency

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

E. Critical accounting estimates and judgements

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

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

a. Determination of impairment losses on loans and advances

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

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

ECL for Loans and Advances

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

1. modelled collective ECL;
2. post-model overlay adjustments; 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 aligned its approach to estimating ECLs with its credit risk management practices and the requirements of AASB 9 *Financial Instruments*, which incorporates segmentation between the following three stages at each reporting date:

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

Key estimates for 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 lender would expect to receive, considering the cash flow capacity of the borrower (including collateral).
Forward-looking adjustments	Captures estimated impacts of scenario weighted macro-economic assumptions. The Group uses macro-economic factors including unemployment rates, target cash rate and 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 macro-economic forecasts in respect of the Australian and New Zealand economies, combined with Group portfolio information, judgements and analysis.
Post-model overlay adjustments	The Group applies adjustments to the modelled ECL result to ensure that the provision balance is sufficiently responding to changes in the credit risk profile of the loans which are not modelled in the above assumptions.

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 annually for impairment, 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 exists, and if necessary, an impairment analysis is performed.

Goodwill is allocated to cash-generating units ("CGUs") 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 2(F)).

Determining whether goodwill or other intangible assets are impaired requires an estimation of the value in use of the CGUs 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 CGU 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 7 for further information, including the key assumptions used.

c. Share-based payments valuation

In determining the share-based payments schemes for the period, the Group use models which require the application of various assumptions and estimates involving Management judgement, such as grant date, fair value and vesting probability.

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.

e. Fair value of Put and Call Option in relation to the remaining 35% interest in Stratton Finance Pty Ltd ("Stratton")

The fair value of the Put and Call Option in relation to the remaining 35% interest in Stratton is estimated as at 30 June 2023 using a Monte-Carlo simulation model, taking into account the terms and conditions on which the option will be executed.

The key judgements pertaining to run the Monte-Carlo simulation include forecast Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA"), the volatility risk associated with achieving targets over the forecast horizon and the acquisition multiple agreed at the transaction date.

F. 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 were mandatorily effective for the current reporting period but did not have an impact on the condensed consolidated financial statements of the Group.

Pillar Two Tax Reform

The Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

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

2. Financial performance

A. Interest income and expense

	Half-year ended	
	30 June 2023 $M	30 June 2022 $M
Interest income:		
Interest from customers	**644.1**	375.0
Bank interest	**20.2**	1.5
Total interest income	**664.3**	376.5
Interest expense:		
Interest expense	**(479.4)**	(184.0)
Net interest income	**184.9**	192.5

B. Non-interest income and expense

Lending fee income

	Half-year ended	
	30 June 2023 $M	30 June 2022 $M
Settlement fees	**17.1**	18.7
Post-settlement fees	**19.9**	17.4
Total lending fee income	**37.0**	36.1

Lending expense

	Half-year ended	
	30 June 2023 $M	30 June 2022 $M
Trail commission expense	**(12.9)**	(13.3)
Trustee and other special purpose vehicle expenses	**(1.5)**	(1.5)
Enforcement costs	**(4.8)**	(3.6)
GST input tax loss	**(2.0)**	(2.4)
Origination expense	**(3.1)**	(4.5)
Other lending expense	**(2.9)**	(2.5)
Total lending expense	**(27.2)**	(27.8)

Servicing fees and other income

	Half-year ended	
	30 June 2023 $M	**30 June 2022 $M**
Loan and other servicing income	**3.5**	4.0
Brokerage commissions	**6.7**	–
Volume bonuses and incentives	**6.0**	–
Other income	**4.2**	3.2
Total servicing fees and other income	**20.4**	7.2

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 2(F)).

	Mortgages		Asset Finance		Loan and Other Servicing		Corporate		Total	
	1H 2023 $M	**1H 2022 $M**	**1H 2023 $M**	**1H 2022 $M**	**1H 2023 $M**	**1H 2022 $M**	**1H 2023 $M**	**1H 2022 $M**	**1H 2023 $M**	**1H 2022 $M**
Revenue Type:										
Lending fee income	**10.8**	10.8	**26.2**	25.2	**–**	–	**–**	0.1	**37.0**	36.1
Whole loan sales income	**3.1**	4.3	**–**	–	**–**	–	**–**	–	**3.1**	4.3
Servicing fees and other income	**–**	0.7	**16.0**	1.0	**4.4**	5.3	**–**	0.2	**20.4**	7.2
Total revenue from contracts with customers	**13.9**	15.8	**42.2**	26.2	**4.4**	5.3	**–**	0.3	**60.5**	47.6
Timing of revenue recognition:										
Services transferred at a point in time	**13.9**	15.8	**36.2**	26.2	**0.9**	1.3	**–**	0.3	**51.0**	43.6
Services transferred over time	**–**	–	**6.0**	–	**3.5**	4.0	**–**	–	**9.5**	4.0
Total revenue from contracts with customers	**13.9**	15.8	**42.2**	26.2	**4.4**	5.3	**–**	0.3	**60.5**	47.6
Lending expense	**(21.4)**	(23.2)	**(5.8)**	(4.6)	**–**	–	**–**	–	**(27.2)**	(27.8)
Other operating income as reported in Note 2(F) Segment Reporting	**(7.5)**	(7.4)	**36.4**	21.6	**4.4**	5.3	**–**	0.3	**33.3**	19.8

D. Expenses

Employee benefits expense

	Half-year ended	
	30 June 2023 $M	30 June 2022 $M
Salaries and wages	(51.5)	(41.6)
Employee incentive and share-based payments	(11.1)	(7.9)
Other personnel expenses	(2.4)	(2.3)
Total employee benefits expense	**(65.0)**	(51.8)

General and admin expense

	Half-year ended	
	30 June 2023 $M	30 June 2022 $M
Related party charges	(0.3)	(0.4)
Postage, printing and office expenses	(1.2)	(0.9)
Professional expenses	(4.5)	(3.2)
Travel and entertainment expenses	(0.8)	(0.5)
Financing fees and expenses	0.1	(1.5)
Insurance expenses	(0.5)	(0.4)
Occupancy expense	(0.6)	(0.8)
Other expenses	(1.8)	(1.2)
Total general and admin expense	**(9.6)**	(8.9)

E. Earnings per share

a. Methodology

Basic earnings per share ("EPS") is calculated by dividing the net profit or loss after income tax 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 rights granted to employees.

b. EPS calculation inputs

	Half-year ended	
	30 June 2023	30 June 2022
Profit attributable to ordinary equity holders of the Group ($M)	**52.0**	72.2
Weighted average number of ordinary shares (WANOS) used in the calculation of basic EPS (millions of shares)	439.7	439.6
Dilutive effect of share options (millions of shares)	11.4	9.0
WANOS used in the calculation of diluted shares (millions of shares)	451.1	448.6

c. Basic earnings per share

	Half-year ended	
	30 June 2023 Cents	30 June 2022 Cents
Basic (cents per share)	**11.82**	16.42
Total basic EPS attributable to the ordinary equity holders of the Group	**11.82**	16.42

d. Diluted earnings per share

	Half-year ended	
	30 June 2023 Cents	30 June 2022 Cents
Diluted (cents per share)	**11.52**	16.09
Total diluted EPS attributable to the ordinary equity holders of the Group	**11.52**	16.09

F. 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. 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, small commercial equipment and novated leasing 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 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:

Half-year ended 30 June 2023	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
Interest income	486.6	176.9	–	0.8	664.3
Interest expense	(368.7)	(110.7)	–	–	(479.4)
Net interest income	117.9	66.2	–	0.8	184.9
Other operating income	(7.5)	36.4	4.4	–	33.3
Loan losses	(2.5)	(22.3)	0.1	–	(24.7)
Total segment reporting income	107.9	80.3	4.5	0.8	193.5
Corporate					
Corporate costs	–	–	–	(98.8)	(98.8)
Depreciation and amortisation	–	–	–	(11.9)	(11.9)
Corporate interest expense	–	–	–	(11.7)	(11.7)
Profit before income tax	107.9	80.3	4.5	(121.6)	71.1
Income tax expense	–	–	–	(19.1)	(19.1)
Net profit after tax	107.9	80.3	4.5	(140.7)	52.0

Half-year ended 30 June 2022	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
Interest income	264.8	111.7	(0.1)	0.1	376.5
Interest expense	(131.1)	(52.8)	–	(0.1)	(184.0)
Net interest income	133.7	58.9	(0.1)	–	192.5
Other operating income	(7.4)	21.6	5.3	0.3	19.8
Loan losses	(4.0)	(10.0)	0.1	–	(13.9)
Total segment reporting income	122.3	70.5	5.3	0.3	198.4
Corporate					
Corporate costs	–	–	–	(80.0)	(80.0)
Depreciation and amortisation	–	–	–	(10.0)	(10.0)
Corporate interest expense	–	–	–	(4.7)	(4.7)
Profit before income tax	122.3	70.5	5.3	(94.4)	103.7
Income tax expense	–	–	–	(31.5)	(31.5)
Net profit after tax	122.3	70.5	5.3	(125.9)	72.2

b. Segment balance sheet

As at 30 June 2023	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
Segment assets	**12,899.6**	**5,641.7**	**0.8**	**1,066.7**	**19,608.8**
Segment liabilities	**(12,899.6)**	**(5,642.3)**	**(0.8)**	**(181.7)**	**(18,724.4)**
Current tax liability	**–**	**–**	**–**	**(7.9)**	**(7.9)**
Total	**–**	**(0.6)**	**–**	**877.1**	**876.5**
As at 31 December 2022					
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

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 Ltd, which has a standalone tax consolidated group.

G. Dividends

a. Declared and paid during the period

	Half-year ended 30 June 2023 $M	Half-year ended 30 June 2022 $M
Final 2022 dividend: $0.051 (2021: $0.09)	**22.3**	39.6

The final 2022 dividend of $22.3 million was fully franked at 30% and paid on 14 April 2023 (2021: $39.6 million).

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

	Half-year ended 30 June 2023 $M	Half-year ended 30 June 2022 $M
Interim 2023 dividend: $0.035 (Interim 2022: $0.054)	**15.6**	23.8

The interim dividend recommended after 30 June 2023 will be fully franked at 30%.

3. 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	
	30 June 2023 $M	31 December 2022 $M
Cash at bank	**78.8**	114.3
Restricted cash	**1,031.8**	1,129.3
Total cash and cash equivalents	**1,110.6**	1,243.6

B. Gross loans and advances

	As at	
	30 June 2023 $M	31 December 2022 $M
Gross loans and advances		
Loans and advances	**18,069.6**	18,278.4
Deferred transaction costs	**253.3**	242.6
Mortgage risk fee	**(63.2)**	(71.0)
Provision for loan impairment	**(130.4)**	(122.2)
	18,129.3	18,327.8
Provision for loan impairment		
Specific provision	**(40.4)**	(29.8)
Collective provision	**(90.0)**	(92.4)
	(130.4)	(122.2)
Specific provision		
Opening balance	**(29.8)**	(19.1)
Provided for during the year	**(27.1)**	(32.7)
Loans previously provided for written-off or sold	**16.5**	22.0
Specific provision closing balance	**(40.4)**	(29.8)
Collective provision		
Opening balance	**(92.4)**	(91.8)
Utilised / (provided for) during the year	**2.4**	(0.6)
Collective provision closing balance	**(90.0)**	(92.4)

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

The following tables show movements in:

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

for the half-year ended 30 June 2023 and year-ended 31 December 2022.

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

Loans and advances	Stage 1 (12-month ECL) $M	Stage 2 (Lifetime ECL) $M	Stage 3 (Lifetime ECL) $M	Total $M
Gross carrying amount as at 1 January 2023	17,983.3	264.5	202.2	18,450.0
Transfer to Stage 1	196.4	(152.1)	(44.3)	–
Transfer to Stage 2	(259.4)	265.4	(6.0)	–
Transfer to Stage 3	(89.7)	(49.5)	139.2	–
Financial assets that have been derecognised during the period	(2,812.2)	(41.7)	(54.9)	(2,908.8)
New financial assets originated	3,233.1	14.4	1.3	3,248.8
Net repayments and interest for the period	(521.6)	(0.7)	(8.0)	(530.3)
Gross carrying amount as at 30 June 2023	17,729.9	300.3	229.5	18,259.7

Provision for loan impairment	Stage 1 (12-month ECL) $M	Stage 2 (Lifetime ECL) $M	Stage 3 (Lifetime ECL) $M	Total $M
Loss allowance as at 1 January 2023	56.2	3.2	43.0	122.2
Transfer to Stage 1	7.1	(1.8)	(5.3)	–
Transfer to Stage 2	(0.8)	1.7	(0.9)	–
Transfer to Stage 3	(0.4)	(0.7)	1.1	–
Financial assets that have been derecognised during the period	(3.3)	(0.4)	(9.4)	(13.1)
New financial assets originated	13.4	0.6	0.5	14.5
Net repayments and interest for the period	(9.8)	1.0	19.6	10.8
Total	62.4	3.6	48.6	114.6
Post-model overlay adjustments	–	–	–	15.8
Loss allowance as at 30 June 2023	62.4	3.6	48.6	130.4

Loans and advances	Stage 1 (12-month ECL) $M	Stage 2 (Lifetime ECL) $M	Stage 3 (Lifetime ECL) $M	Total $M
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	(4,076.8)	(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	Stage 1 (12-month ECL) $M	Stage 2 (Lifetime ECL) $M	Stage 3 (Lifetime ECL) $M	Total $M
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**

The value of the collateral held as security for loans in the Stage 1, Stage 2 and Stage 3 collective provision as at 30 June 2023 is $23.0 billion (31 December 2022: $24.5 billion).

The value of the collateral held as security for loans in the Stage 3 specific provision as at 30 June 2023 is $5.7 million (31 December 2022: $6.7 million).

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

30 June 2023	Maximum exposure to credit risk $M	Relative credit quality of assets Rated[12]	Unrated $M
Cash and cash equivalents	1,110.6	Investment grade	–
Derivative financial instruments	140.9	Investment grade	–
Gross Mortgages loans and advances (including undrawn facilities)	13,903.6	–	
LVR Band 90%+			226.0
LVR Band 75-90%			4,130.0
LVR Band 60-75%			4,133.4
LVR Band <60%			5,414.2
Gross Asset Finance loans and advances	5,615.1	–	
Commercial			3,278.9
Consumer			2,336.2
Receivables	15.5	–	15.5
Other financial assets	0.2	–	0.2
Total	**20,785.9**	**–**	**19,534.4**

31 December 2022	Maximum exposure to credit risk $M	Relative credit quality of assets Rated[12]	Unrated $M
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**

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

As at 30 June 2023 the Group had $1,489.2 million of undrawn customer facilities (31 December 2022: $1,566.6 million).

Undrawn credit commitments and redraw balances which can be cancelled at any time by the Group, are not recognised on the statement of financial position. The Group recognises ECL on undrawn credit commitments as required by AASB 9. As at 30 June 2023, the Group has recognised ECL of $Nil on undrawn credit commitments (31 December 2022: $Nil).

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.

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	
	30 June 2023 $M	**31 December 2022 $M**
Equity investments held at FVTPL	**19.4**	19.2
Debt investments held at amortised cost	**0.2**	0.2
Total other financial assets	**19.6**	19.4

4. Financial liabilities

A. 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	
	30 June 2023 $M	**31 December 2022 $M**
Non-recourse facilities	**18,356.3**	18,698.4
Government structured finance	**10.2**	13.4
Corporate debt facilities	**277.7**	267.4
Total borrowings	**18,644.2**	18,979.2

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

Corporate debt facilities secured over certain assets of the Group were also in place in the year ended 31 December 2022 and the period to 30 June 2023.

In March 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 30 June 2023, $155.0 million is drawn down on the total facility of $200.0 million (31 December 2022: $145.0 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 issued three tranches of floating rate notes. As at 30 June 2023, the value of outstanding notes was $120.0 million (31 December 2022: $120.0 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.

5. Financial instrument disclosures

A. Fair value hierarchy

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

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following assets and liabilities are measured at fair value by the Group for financial reporting purposes:

			As at	
	Fair value hierarchy	**Valuation technique and key inputs**	**30 June 2023 $M**	**31 December 2022 $M**
Equity investments at FVTPL	Level 2	Recent arms' length market transaction	**19.4**	19.2
Derivative financial assets and liabilities	Level 2	Discounted cash flow, forward interest rates, contract interest rates, appropriate discount rates	**140.9**	130.7
Derivative liability in relation to Put and Call Option	Level 3	Monte carlo simulation model, management forecasts, financial performance since acquisition	**(4.3)**	–
Total			**156.0**	149.9

In the period to 30 June 2023 there has been no change in the fair value hierarchy or the valuation techniques applied to any of the balances above.

Fair value of assets and liabilities not measured at fair value

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

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

6. Equity

A. Issued capital

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

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

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

a. Movements in ordinary shares:

	Number of shares (millions)	$M
Opening balance 1 January 2023	439.7	729.6
Ordinary shares issued to employees as part of share-based payment scheme	0.1	0.2
Balance 30 June 2023	**439.8**	**729.8**

During the period, the Group issued additional ordinary shares to employees in accordance with Pepper Money equity plans.

B. Other reserves

	As at	
	30 June 2023 $M	31 December 2022 $M
Currency translation reserve	**(0.4)**	(0.3)
Cash flow hedge reserve	**93.4**	90.3
Share-based payments	**12.1**	9.8
Total other reserves	**105.1**	99.8

7. Goodwill and intangibles

A. Impairment assessment

	As at	
	30 June 2023 $M	31 December 2022 $M
Goodwill and intangibles		
Goodwill	**98.2**	98.2
Other intangible assets	**24.8**	25.2
Software	**24.1**	28.9
Total goodwill and intangibles	**147.1**	152.3

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 ("CGU") 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 CGU.

a. Indicators of impairment

Several indicators of impairment have been considered by Management, across both the Mortgages and Asset Finance CGUs. These include both internal and external sources of information such as:

- significant changes (historical and future) in the market, economic, legal or technological environment which would have an adverse impact on the Group;
- interest rate changes which impact the discount rate used in modelling;
- evidence of a worsening financial position;
- plans to discontinue operations; and
- macro-economic conditions.

As the Group's market capitalisation is below the net asset position of the Group at the end of the reporting period, Management determined that this factor is an indicator of impairment.

b. Recoverable amount of the asset

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Management uses the value in use method to determine recoverable amount of the Mortgages and Asset Finance CGUs. The following key assumptions have been used in determining the recoverable amount:

	30 June 2023	
	Mortgages CGU	**Asset Finance CGU**
Post-tax discount rate	**14.9%**	14.9%
Long-term growth rate	**2.5%**	2.5%

c. Sensitivity analysis

Sensitivity analysis on all of the key assumptions employed in the value in use calculation has been performed. The recoverable amount of the Mortgages and Asset Finance CGUs are in excess of the carrying amount, any reasonable changes in key assumptions will not lead to an impairment.

B. Impairment charge

Based on the impairment testing performed, the recoverable amount of the Mortgages and Asset Finance CGUs are higher than the carrying amount and no impairment of goodwill is recognised as at 30 June 2023.

8. Related party transactions

A. Related party disclosures

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 60.56% of the shares of Pepper Money Limited (and its controlled entities).

The following table details the total amount of transactions that have been entered into with related parties during the half-year ended 30 June 2023 and half-year ended 30 June 2022, as well as balances with related parties as at 30 June 2023 and 31 December 2022.

a. Transactions and balances with related party entities

$'000	Dividend paid	Interest income and other fees	Interest expense and other fees	Receivable	Payable
Entity with control over the Group:					
Pepper Group ANZ Holdco Ltd – 2023	**(13,582)**	**–**	**–**	**298**	**–**
Pepper Group ANZ Holdco Ltd – 2022	(23,968)	–	–	298	–
Pepper Group Services (Australia) Pty Ltd – 2023	**–**	**150**	**(300)**	**–**	**(192)**
Pepper Group Services (Australia) Pty Ltd – 2022	–	150	(510)	–	(1,097)
Pepper Group Assets (Australia) Pty Ltd – 2023	**–**	**–**	**(213)**	**–**	**(39)**
Pepper Group Assets (Australia) Pty Ltd – 2022	–	–	–	–	(234)
Other related parties of Pepper Money Limited – 2023	**–**	**–**	**–**	**32**	**–**
Other related parties of Pepper Money Limited – 2022	–	–	–	29	(323)

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.

b. 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 receivable are limited recourse to the Pepper Money Limited shares held by Management.

	As at	
	30 June 2023 $'000	**31 December 2022 $'000**
Loan balances to key management personnel of the Group	**5,562.0**	5,562.0

9. Events occurring after the reporting period

A. Interim dividend declared

The Pepper Money Limited Board declared a fully franked interim dividend of 3.5 cents per share on 23 August 2023. The Record Date is 12 September 2023 and the payment date is 12 October 2023.

The interim dividend has not been provided for in this financial report.

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

Corporate Directory

Secretary

John Williams

Principal registered office in Australia

Level 27
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North Sydney NSW 2060

Share register

BoardRoom Registry

Auditor

Deloitte Touche Tohmatsu
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Other information

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