peppermoney

Appendix 4E

Company details

Name of entity:	Pepper Money Limited (formerly Pepper Group Pty Limited)
ACN:	094 317 665
ABN:	55 094 317 665
Reporting period:	For the year ended 31 December 2021 (the 'year')
Prior comparative period:	For the year ended 31 December 2020

Results for announcement to the market

All comparisons to year ended 31 December 2020:

				$M
Net interest income from continuing operations	Up	4.1%	to	366.6
Total operating income from continuing operations	Up	17.8%	to	375.8
Net profit after income tax from continuing operations	Up	31.5%	to	130.7

Dividends

The Directors have approved a final dividend in respect of the financial year ended 31 December 2021 of 9 cents per ordinary share which will be paid on 14 April 2022 to shareholders on the share register as at 15 March 2022.

No interim dividend in respect of the year ended 31 December 2021 was paid or declared (31 December 2020: $Nil).

	2021 Amount per security	2021 Franked amount per security
Final dividend	9 cents	9 cents
Interim dividend	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 2021 $	31 December 2020 $
Net tangible assets per ordinary share	1.29	2.56

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 2020 and with any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the Australian Securities Exchange ('ASX') Listing Rules.

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

Additional information supporting the Appendix 4E disclosure requirements can be found in the Director's 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 associated with the Initial Public Offering ('IPO'). Management believe the disclosure of the Pro-forma NPAT provides additional insight into the underlying performance for the period, by excluding one-off, non-recurring items.

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

	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Statutory NPAT	**130.7**	99.4
Standalone costs	**–**	(0.8)
Redundancy and other restructuring	**–**	3.0
Employee remuneration plans	**(0.2)**	(3.0)
Public company costs	**(0.2)**	(1.8)
Corporate debt costs	**7.9**	12.4
Offer costs	**8.6**	0.1
Tax impact of adjustments	**(4.9)**	(3.0)
Pro-forma NPAT	**141.9**	106.3

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

Refer to Note 16(E) 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 press 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

Sydney, 24 February 2022

peppermoney

Annual Report **2021**

Contents

Highlights

Listed 25 May 2021

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

Helping customers succeed

288,900

Customers now helped by Pepper Money[1]

Record originations

$8.5bn

Our People

Engagement

+80

Top 10% of high preforming companies globally

Diversity F|M - 53|47

Recognised by our Partners

Non-bank of the Year & Best Specialist Lender

Australia's largest electric vehicle lender

Facilitating more than 3,800 tonnes reduction of greenhouse gas emissions

Supporting our communities

Assisting families by funding properties that have saved 27% in CO_2 emissions through our Green Bond program

Record results

AUM

$17.0bn 13% YoY

Lending AUM up 19% to $15.8bn

Total Operating income

$375.8m 18%

Record NPAT

Pro-forma

$141.9m 34%

Statutory

$130.7m 31%

Investing in Pepper Money

New platforms & processes

ISO27001 compliant

Digital tools supporting record volumes PPS and Pepper Resolve.

Funding – supporting growth

Funding capacity

$9.9bn

up 31%

Deep and diversified investor base, with over 100 local and offshore

Strong dividend yield

5.5%

annualised[2]

1. Cumulative customers helped from 2014 to 31 December 2021.
2. Dividend yield based on average share price from time of IPO to year end (25 May – 31 December 2021).

Chair's Letter

> **Our purpose of helping people succeed has never been more evident – shown through the record number of customers helped and our strongest ever originations.**

Dear Shareholder,

Pepper Money Limited finished **CY2021 stronger than it has ever been** and continues to deliver sustained profitable growth.

In a year that brought so many challenges, the strength of **Pepper Money's core capabilities**, its strong focus on customers and people, and its ability to **quickly respond** to changing conditions, not only showcased the Company's **resilience** and **adaptability** but continues to **set us apart from the competition**.

Despite the challenges of extended lockdowns and the restrictions these brought, Pepper Money **delivered on its purpose** of helping people succeed - typically those underserved and undervalued by traditional lenders.

Our focus on customers

Pepper Money has a target, by the end CY2023, to have **helped more than 500,000** customers find the right lending solution that supports them in fulfilling their needs – whether that is buying a home, a car or taking a well-deserved holiday.

Over CY2021, we helped a further 59,780 customers – of which 50% were self-employed or small businesses. This means, since CY2014, Pepper Money has helped more than 288,900 customers.
I am proud of the fact that we also delivered this customer growth with what we see as **industry leading turn-around times**. Alongside this, Pepper Money's **Customer Satisfaction** for home loan leads the market when compared to both banks and non-bank lenders at **69%**[1] and **4 in 5** Pepper Money Asset Finance and Personal Loan **customers are highly satisfied**.

Strong operational and financial performance

The focus on helping customers saw Pepper Money achieve **record originations** in CY2021 of $8.5bn, a growth of 84% on CY2020. The business achieved its highest ever annual originations for both Mortgages ($6.4bn, +89% on PCP) and Asset Finance ($2.1bn, +70% on PCP). This delivered an 18% growth in Total Operating income for CY2021 to $375.8m. Both our New Zealand and Commercial Real Estate businesses delivered outstanding results and are well positioned to continue to grow.

Our ongoing investments in technology continued to pay dividends – supporting the business in customer and origination growth with underlying core productivity[2] improving 70% vs PCP, and 17% CAGR since CY2019.

Even in the face of challenges that the ongoing pandemic brought in CY2021, the strength of the business and its clear ability to quickly leverage core capabilities came to the forefront. This has seen Pepper Money deliver a **34% increase** on PCP in Pro-forma Net Profit After Tax (NPAT) to $141.9m and **$21.2m higher than our IPO Prospectus Forecast**. Statutory NPAT of $130.7m grew 31% on PCP.

Data & technology supporting scaled growth

Our capabilities in driving insights through data collected over our 21 year history in credit assessment and risk management, shows through the high quality of our asset portfolio. The investment we have made in our technology platforms and innovative partner and customer solutions, allowed the business to respond to market conditions over CY2021. Over the year we continued to roll out and expand our new

1. RFi Research: Pepper Money NPS Measurement and Benchmarking September 2021. 69% refers to the proportion of customers that are highly satisfied/scored 8-10 out of 10.
2. Core productivity defined as Originations divided by FTEs (excluding FTEs for Broker Servicing, Risk, Treasury, Finance, Legal and Human Resources.

platform – Solana – that supports Asset Finance. In Q4 CY2021 this platform has delivered a 53% (vs PCP) uplift in the productivity[3] of our Credit Agents.

Deeper partnership relationships and stronger distribution footprint

A core element of Pepper Money's ongoing success is the strength of our partner network. We continued to grow our distribution footprint over CY2021, and now have **18,000** accredited brokers in Mortgages and **2,092** accredited distribution partners in Asset Finance. In CY2021 Pepper Money's Asset Finance business entered into a new strategic referral partnership with **DLL**[4] – a global vendor finance company – which brings two complimentary businesses together – DLL providing comprehensive wholesale and Asset Finance providing retail finance offerings.

Pepper Money continues to be recognised by our partners and peers – taking out multiple awards over 2021 including both the MPA[5] and AMA[6] **Non Bank Lender of the Year**, and the MFAA[7] and ALA[8] **Best Specialty Lender**.

Diverse funding capabilities

Pepper Money continues to go from strength to strength when it comes to our **Securitisation Program**. Pepper Money was again the most active issuer in the public securitisations[9] markets with 6 deals delivering a record of $4.8bn in funding. Over CY2021 Pepper Money **increased warehouse capacity** by 31% taking total capacity to $9.9bn[10] across 13 facilities by year end. Pepper continues to build on its **deep and diversified investor base**, with over 100 local and offshore investors which supports our ability to access different geographies and currencies. Importantly, as we move into CY2022 there are **growth opportunities to build on our capacity** even further as we see strong demand from existing and new warehouse funders.

Sustainable outcomes for all stakeholders

Pepper Money always strives to ensure we have a positive impact on our key stakeholders and the environment. We bring this to life by helping our underserved customers with a responsible mindset. This includes; our **Green Bond** program, our market leading position in

3. Applications assessed per Asset Finance Credit Agent Q4 CY2021 versus Q4 CY2020.
4. De Lage Landen International B.V (DLL).
5. MPA: Mortgage Professional Association Brokers on Brokers award.
6. AMA: Australian Mortgage Association.
7. Mortgage & Finance Association of Australia.
8. ALA: Australian Lending Awards. Best Speciality Lender National Best Mutual/Specialty Lender.
9. Westpac: "Australian Securitisation: 2021 in Review. 2022 Year Ahead". 15th December 2021, page 16 & 17.
10. Excludes notes held by Pepper Money Limited.

> **Pepper Money – the home of real life loan options...**

Electric Vehicle (EV) lending, and our **community reach** programs which we support via our **Pepper Giving** initiative.

Pepper Money has built strong foundations of supporting the community, embedding good corporate governance and lending responsibly to our customers. We are on the path to continue to strengthen our Environmental, Social and Governance (ESG) Framework to provide a quantifiable guide for our people and stakeholders on the standards we seek to uphold.

Return to our Shareholders – Dividend

The year's exceptional performance and the strength of the Company's capital position allows Pepper Money to deliver strong returns to shareholders. As such, the Board has determined to pay a final dividend for CY2021, in respect of the period from Completion of the IPO[11] to 31 December 2021 of **9 cents per share**, with a payout ratio at the top of the target set out in the IPO Prospectus[12] of 40% of Pro-forma NPAT from May to December 2021, delivering our shareholders a dividend yield of **5.5% annualised**[13].

Outlook

The start to CY2022 has again brought some challenges as the COVID-19 pandemic continues to run its course. Pepper Money has demonstrated that it can adapt and grow through all cycles. As we look forward to CY2022 I believe Pepper Money has never been better placed to help more customers to succeed and to continue to capitilise on the scale benefits that our investment in data and technology bring to our platform.

Thank you to the team

I thank the incredible team at Pepper Money. We continue to **attract amazing talent to the business** through our mission and values. We could not have achieved these results without our people. In a year that saw the business IPO and then deliver record results under lockdown conditions I have never been prouder of the amazing team who manage, support, and guide the business.

On behalf of the Board, I extend our thanks to all the partners who continue to help make Pepper Money the business it is – to our brokers, introducers and community partners. I look forward to a further strengthening of these key relationships.

Michael Culhane
Chair, Pepper Money Limited

11. While IPO was complete 25 May 2021 Pro forma NPAT for the period 1 May 2021 to 31 December 2021 has been applied for the determination of full year dividend.
12. Pepper Money Limited Prospectus – Section 4.10, page 181.
13. Dividend yield based on average share price from time of IPO to year end 25 May – 31 December 2021.

Profiles

Board of Directors

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

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 Group currently operates. Michael founded Pepper Money in 2000. From 2001 to 2008, Michael chaired the Board as well as founding and running Oakwood Global Finance LLP that grew into a diversified specialty finance business. Prior to founding Pepper Group, Michael served as the Executive Chairman of Future Mortgages (UK non-conforming residential mortgage lender) and the Chief Executive Officer of the London office of FBR, a United States-based investment bank (while at FBR, Michael worked for 10 years in equity capital markets).

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 19 years of extensive experience across banking and finance, Mario has held senior positions in an ADI environment as well as in the non-bank sector. Mario held various roles including State Manager, Mortgage Broker Distribution – Western Australia and South Australia for Westpac and is a known champion of mortgage broker education and growing the specialist lending category. In 2019 and 2021, Mario was included in the MPA Mortgage Global 100 List featuring leaders who are making a difference in today's mortgage industry.

Des O'Shea
Non-Executive Director and Shareholder Representative (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 Audit and Risk Committee. Des is currently Chairman of Oodle Finance; a U.K. based auto finance business and is on the board of Byblos Bank in Lebanon (where he is Chair of the Risk Committee) and Byblos Bank Europe (where he is Chair of the Audit and Risk Committee). Des was Chair of Ulster Bank Limited in Ireland until July 2020 and is a Fellow of Chartered Accountants in Ireland. He has been on the board of banks and other financial institutions in more than 12 countries in Europe, Asia, South and Central America.

Mike Cutter
Independent Non-Executive Director (appointed 6 May 2021)

Mike has over 30 years' experience in the financial services industry, both in Australia and abroad, extensive knowledge of comprehensive credit reporting regimes in Australia and international markets, and has been one of the original champions in the Australian market. Mike is currently a Non-Executive Director of Sezzle, an ASX listed Buy Now Pay Later company and is the Chair of the Arteva Funding. 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 chairmanships with Wesfarmers, and with GE, and AFC from 2006 and NIBA from 2013. Mike is a Senior Fellow of Finsia, Graduate of the AICD, served as a Director of the Women's Cancer Foundation from 2006 to 2015, Director of the Australian Finance Conference from 2006 to 2009 and National Insurance Brokers Association from 2013 to 2014.

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 of the Foundation and Friends (F&F) of the Botanic Gardens, and a member of the Portfolio Advisory Council of Services Australia and of the Audit & Risk Committee of Infrastructure 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 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.

Board of Directors *continued*

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 businesses on workplace behaviour and culture issues. Justine has a long association with Pepper Money, initially as lead Employment Advisor on the Australian GE Residential Mortgages acquisition in 2011, and then as ongoing employment advisor with Herbert Smith Freehills and Seyfarth Shaw. Justine is a former board member for Catholic Schools NSW/ACT, Access EAP and TAFE NSW.

Rob Verlander

Independent Non-Executive Director (appointed 6 May 2021)

Rob has held senior positions at investment and commercial banks, in Australia and the United Kingdom, in Fixed Income, Capital Markets, Infrastructure and Securitisation for over 35 years. These include: Head of DCM Origination BZW Australia (Barclays Banking Group), Head of Fixed Income Commonwealth Bank of Australia (Europe), member of management committee CBA (Europe), Head of Primary Markets CBA, and a leading member of CQ (CBA's Institutional Bank Diversity and Culture Council). Prior to his retirement from the banking industry in 2019, Rob was head of the Securitisation business at the Commonwealth Bank of Australia, where he acted as banker to many of Australia's major non-bank lenders, including Pepper Money. Rob holds a Bachelor of Arts and Law (University of Melbourne), Master of Applied Finance (Macquarie University) & Graduate Diploma in Commercial Law (Monash University).

CEO's Letter

Dear Shareholders,

It is with great pleasure that I present the **first annual results for Pepper Money** following our listing on the ASX in May 2021.

CY2021 has truly been a landmark year for Pepper Money – with the business completing the IPO, celebrating 21 years in business and **delivering record results** across all key drivers.

The strength of Pepper Money's CY2021 financial results is down to our ability to **deliver on our strategy**. Through our ongoing focus on helping the **underserved customer**; our continued pursuit of delivering a better experience for our partners and their customers, our **purpose-built technology platform** and **digital tools**, our diverse sources of funding supporting our growth, and our ability to leverage data to **manage credit risk** and identify business opportunities. We continue to deliver on our commitment to **efficient scaled growth**, all of which supports our ability to **drive profitability**.

And of course, we are only able to achieve all of this because of our **people**. Their '**Can Do**' attitude has seen the business rise to face the challenges presented by the continuing pandemic, and to always go one step beyond to support our customers, partners, and communities.

Key highlights for CY2021 include:

More Customers helped **59,780 NEW CUSTOMERS OVER CY2021 UP 48% ON CY2020**	Pepper Money welcomed **59,780 new customers** over CY2021 – a growth of 48% on CY2020. In line with our commitment to help the underserved, **50%** of new customers were self employed/small businesses. We continued to assist customers through the process: supporting them with industry leading turnaround times in both Mortgages and Asset Finance. Since 2014 Pepper Money has now helped **288,900 customers**.
Mortgage originations of $6.4bn a growth of **89% ON PCP**	The investment made in technology for scaled growth has enabled us to deliver record originations across all our products. In total, Mortgage originations at $6.4bn saw Prime product grow 85%[1], Non-Conforming 99%, New Zealand 53% and Commercial Real Estate 59% in CY2021 versus CY2020. In a period of intense competitive activity and record low interest rates our Mortgage business in Australia delivered **2.6 times** systems growth in 2H CY2021 following our strong 1H CY2021 systems growth of **2.3 times**.
Asset Finance originations of $2.1bn a growth of **70% ON PCP**	Our Asset Finance business continues to deliver accelerated growth as its purpose-built API connected platform – Solana – makes it easier for distribution partners to connect seamlessly to provide market leading approval times for their customers. With originations of $2.1bn in CY2021 Asset Finance closed the year with record AUM of $3.5bn. Asset Finance growth outpaced the market with **8.2 times** system growth in 2H CY2021 following systems growth of **4.3 times** in 1H CY2021.
Total AUM (close) **$17.0BN UP 13% ON PCP**	**Lending AUM** increased $2.5bn from December 2020 to close 2021 at **$15.8bn**. Mortgages increased $1.6bn (+15%) to **$12.3bn** and Asset Finance increased $0.9bn (+33%) to a record **$3.5bn.** Including Servicing AUM of $1.2bn, **Total AUM grew 13%** on CY2020 year-end close to **$17.0bn** positioning the business strongly as it enters CY2022.
Pro-forma Discretionary Expense[2] Management **4% INCREASE ON PCP**	We approach cost management with an eye to capitalising on opportunities to grow revenue at positive margins. Over CY2021 we accelerated marketing spend to capitalise on strong market conditions to grow originations. While Employee benefits expense increased 17% – largely due to variable bonuses/commission in light of the over achievement across all key metrics – expense initiatives implemented in CY2020 and our discipline approach to cost management saw **Other expenses declined 10% on PCP.**
Employee Engagement from our annual survey increase 6% on PCP **TO 80**	People are at the heart of our business. Part of what makes Pepper Money successful is a culture that is driven by living our core values. In CY2021 **over 95%** of our employees participated in our annual engagement survey. Our **overall engagement score of 80** places us in the **top 10%** of high performing companies globally. These exceptional results are driven by our employee's strong alignment to the Company's strategy and their commitment to Pepper Money's vision and mission.

1. Prime and Non-Conforming growth of 85% and 99% respectively refers to the Australian mortgage growth on PCP. Including New Zealand and CRE Prime grew 85% and Non-Conforming 96% on PCP
2. Discretionary costs: Pro forma Expenses including Depreciation & Amortisation and Corporate Interest expense.

Pro-forma NPAT $141.9m up 34% on PCP **STATUTORY NPAT $130.7M UP 31% ON PCP**	We delivered Pro-forma **NPAT growth of 34%** on CY2020 and **exceeded our IPO Prospectus Pro-forma NPAT** forecast of $120.7m by **18%.** One-off IPO related costs were $6.6m. **Statutory NPAT grew 31%** on PCP to $130.7m.
$279.4m corporate liquidity at 31 December 2021 **DIVIDEND YIELD (ANNUALISED) 5.5%**	Pepper Money **unrestricted cash balances of $129.4m** increased 35% on PCP. Undrawn Corporate Debt Facilities of $150.0m resulted in total corporate liquidity of **$279.4m** as at the end of CY2021. The business's strong capital position has allowed the Board to declare a **final fully-franked dividend of 9 cents** per share.

Pepper Money will continue to execute on our strategy of helping people succeed by providing a **real-life approach** to lending and servicing across home loans, car loans and small balance commercial lending. Fundamental to our strategy is a focus on data-driven insights and expertise – that delivers value to our customers, distribution partners and our business.

Moving forward we are evolving our brand strategy – to align with the values that are most important to customers and partners – that of trust. Pepper Money has always sought to be the lender customers come to **for a purpose** – typically when their needs are not understood or being met by more traditional lenders. This purpose translates to trust – a value we seek to build more strongly across our brand attributes.

Our **focus on innovation** – whether product, process, systems, funding or how we use data to drive decisions – positions us well to continue to deliver on our growth objectives – and I believe we are in advance of our goal to have **helped 500,000**[3] **customer by CY2023**, particularly given the accelerated growth in our Asset Finance business.

I continue to be proud of how we approach our commitment to **the environment and sustainability** – it is part of our DNA. Pepper Money is Australia's leading Electric Vehicle (EV) lender and since we started the program we have helped **facilitate more than 3,800 tonnes** reduction in greenhouse gas emissions[4]. For our 21st birthday we celebrated by planting 21 trees for every Pepper Money employee – we have now planted 7 hectares across Australia, New Zealand, and the Philippines – which will absorb **24 tonnes** of **Co2 per hectare per year over the first 20 years of growth**[5]. We were also the first Australian non-bank to deliver a **Green Bond** via our RMBS program– and we are extending this program even further over CY2022.

Looking ahead, it is to be expected economic conditions will be affected by ongoing pandemic. But **we are well prepared**. Pepper Money has over 21 years of credit underwriting and asset servicing expertise, which has seen the business successfully navigate through the cycles.
We are ready to respond to different economic scenarios and to capture opportunities as they emerge.
The balance of our portfolio – from Mortgages to Asset Finance to Servicing – positions Pepper Money with confidence to deliver growth.

As always Pepper Money's values of **'Can Do', 'Balanced'** and **'Real'** will help support and guide the business. Our ongoing focus on disciplined execution, **our commitment to our people, stakeholders and the communities** in which we operate will continue to provide the foundations as we seek to become the **largest and most trusted** non-bank lender in Australia and New Zealand.

Mario Rehayem
CEO, Pepper Money Limited

3. 500,000 customers from 2014 to 31 December 2023 cumulative.
4. Based on calculations supplied by the Electric Vehicle Council of Australia.
5. Winrock International, FLR Carbon Storage Calculator – average measure over life of tree.

Profiles

Executive Team

Mario Rehayem
Chief Executive Officer

See Directors bio on page 6.

Therese McGrath
Chief Financial Officer

Therese 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, CBA 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.

Executive Team continued

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 Ltd, Commonwealth Bank of Australia and Westpac.

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.

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.

Operating and Financial Review

1. Introduction

Pepper Money is one of the largest non-bank lenders in the Australian mortgage and asset finance markets. Pepper 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 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, as well as expand into residential mortgages in New Zealand.

Pepper Money undertook an Initial Public Offer ('IPO'), listing on the ASX 25 May 2021 to support ongoing growth opportunities.

Pepper Money's continual focus on providing innovative home loan and asset finance solutions to customers that are being underserved by traditional lenders, coupled with the depth of our distribution footprint, our diverse funding as well as our ongoing investment in data and technology has allowed Pepper to successfully respond to changing market conditions. This has seen the business deliver record results for CY2021, including:

CY2021 Highlight

288,900

Customers helped since 2014

59,780 new customers to Pepper Money over CY2021 – growth **48%** on PCP

$8.5bn

Highest annual originations

Representing **84% growth** on CY2020

$17.0bn

Total AUM CY2021

The Company closed CY2021 with Total AUM (Lending & Servicing) up **13%** on December 2020 close

NIM 2.56%

Diversified portfolio supporting margin

Overall NIM of 2.56% down 10 basis points on CY2020 as strong mix contribution from Asset Finance where NIM grew 17 basis points to 3.41% helped to offset Mortgage NIM compression of 20 basis points to 2.33%

0.23% of AUM

Strong Asset Quality

The strongest in the Company's history, with total losses excluding all COVID-19 / Management Overlays & releases **improving by 2 basis points to 0.23%** of AUM

43.3% CTI

Improved 1.3% on CY2020

Pro-forma CTI improved **1.3%** on CY2020. Investment in originations growth was offset by productivity gains and cost initiatives. Employee variable bonuses / commissions increased in light over overachievement across key metrics.

$9.9bn

Warehouse capacity

At 31 December 2021 **represents a 31% growth** on PCP

34% PCP

Pro-forma NPAT growth

Statutory NPAT of **$130.7m** up 31% and Pro-forma NPAT of **$141.9m** up 34% on PCP

2. Purpose and Strategy

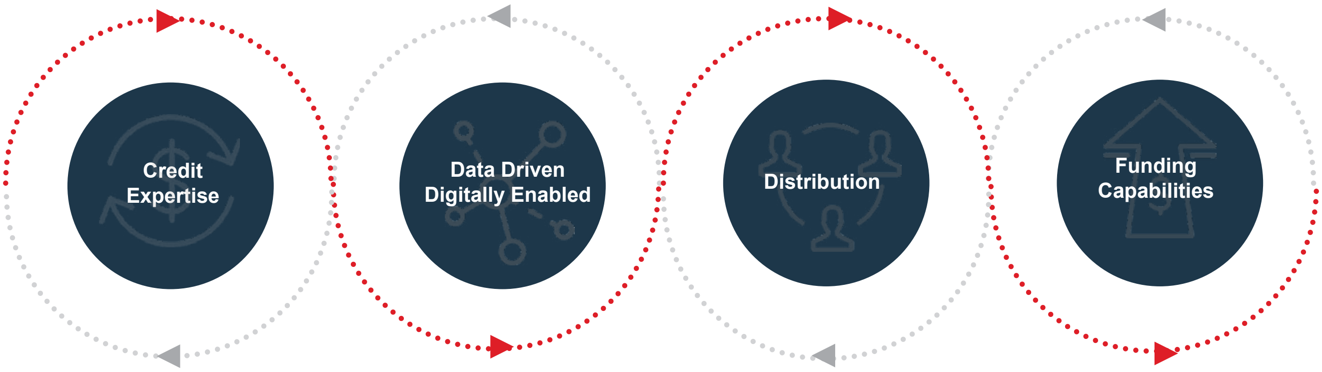
Since inception Pepper Money's mission has been ***to help people succeed***. We focus on challenging the way loans are designed and distributed, focusing on the **underserved and undervalued segments** – those customers that traditional banks do not best serve.

At the heart of Pepper are our **core values of 'Can Do'**, **'Balanced'** and **'Real'**.

Pepper Money's strategy is to be Australia and New Zealand's leading non-bank lender by living by its mission: **to help people succeed**. Pepper Money has four key pillars to support its strategy focused on **Customer, Business, People** and **Brand**.

From 2014 to the end of 2021, Pepper Money has helped **nearly 289,000 customers**, with a goal to nearly double to **500,000 by the end 2023**. Pepper Money's ability to respond quickly to changing conditions and to leverage our core competencies – of credit & underwriting, data & technology, broad and deep distribution partnerships, and funding diversity positions Pepper Money to continue to efficiently grow.

2.1 Core Competencies



Comprehensive understanding of consumer credit risk 21 years of underwriting history.

Cascading product solutions model.

Leading technology solutions that enhance distribution partner and customer experience while supporting efficient scaled growth.

Extensive and diverse distribution footprint giving customer choice when accessing Pepper Money products.

Diversified and stable sources of funding.

Complementary offerings in home, car and commercial loans.

Pepper Money's **ambition** is to be the **largest non-bank lender**, the **most trusted** by our customers, brokers, introducers, and our people.

3. Impact of COVID-19 on results

The COVID-19 pandemic continues to be a global challenge and is creating uncertainty in the markets in which Pepper Money operates. The recent acceleration in cases, due to the emergence of the Omicron strain, in Australia and overseas, has had a notable impact on the supply and demand elements of the Australian economy.

Over CY2021 Pepper Money continued to work to support customers, who may have faced hardships, particularly given the periods of extended lockdowns in NSW and Victoria. At 31 December only 13 customers in total were subject to COVID-19 Hardship payment deferral.

Pepper Money has at no time received any JobKeeper payments.

The business has remained resilient in being able to continue to sustain operations and support customers without compromising either customer service or the efficiency of the business. Pepper Money has robust business continuity plans which holds us in good stead for managing impacts on our operations if and when they arise.

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

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

- at 31 December 2021, 0.03% of Pepper Money's loans and advances were subject to COVID-19 hardship payment deferral (31 December 2020: 0.7%);
- at 31 December 2021, the Pepper Money maintained a COVID-19 management overlay of $15.0m for potential future economic loss directly related to the impacts of COVID-19 (31 December 2020: $23.0m).

Pepper Money believes the current provision is adequate to withstand future losses and continues to reflect a cautious approach to managing risks as the economic recovery from COVID-19 pandemic continues.

For additional information for COVID-19/Management impact on credit risk management and the provision for expected credit losses, please refer to the Financial Statements.

4. Overview of business segments

Pepper Money has a broad product offering within its Mortgage and Asset Finance businesses that cater for a range of customer needs. With over 21 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.

4.1 Business segments

The three core segments Pepper Money operates in, and summary performance for CY2021, 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 Lease	• Residential home loans servicing • Personal loans servicing • Broker servicing
Originations (CY2021)	$6.4bn 58% Prime 42% Non-Conforming	$2.1bn 48% Consumer 52% Commercial	n/a
AUM (December 2021 close)	$12.3b	$3.5b	$1.2b
NIM % (CY2021)	2.33%	3.41%	N/A
Operating Income (CY2021) % Total Operating Income	$256.1m 68%	$110.8m 30%	$8.8m 2%
Accredited Brokers/ Partners (December 2021 close)	18,000 +5% PCP	2,092 +5% PCP	

5. Financial performance

For the year ending 31 December 2021

5.1 Reconciliation of Statutory Profit to Pro-forma Profit

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 60.59% owned by Pepper Group ANZ Holdco Limited ('ANZ Holdco').

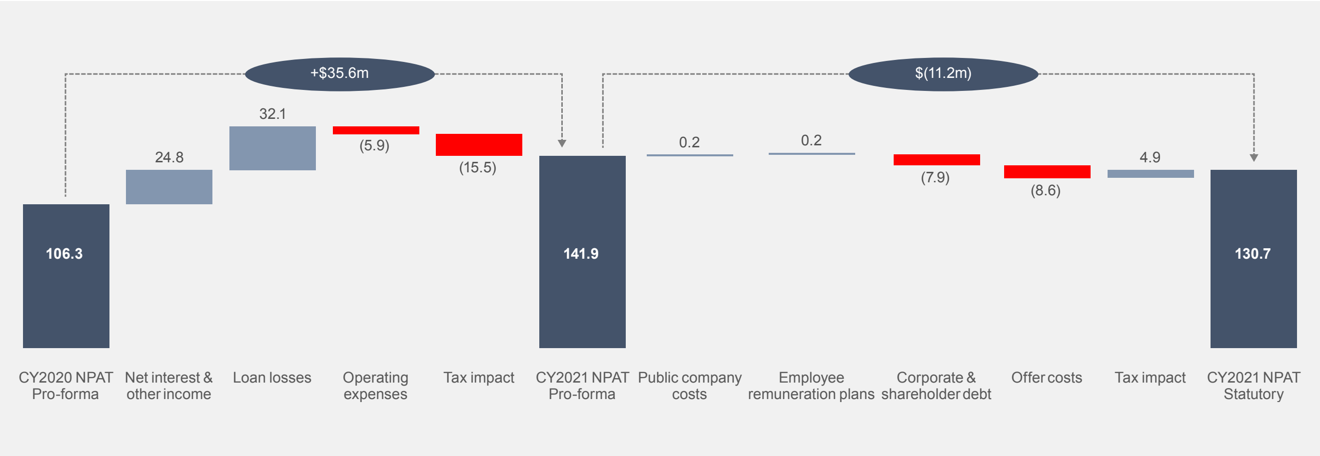
Holdco is independently a wholly owned subsidiary of Pepper Global Topco Limited ('Topco').

As part of the Restructure, all Pepper Group businesses outside of Australia and New Zealand ('ANZ') were sold to other subsidiaries of Topco (Discontinued businesses).

To reflect the Pepper Money's Pro-forma earnings, NPAT has been adjusted to separate one-off items associated with the Initial Public Offering ('IPO'). 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 tables reconciles Pepper Money's Statutory NPAT to the audited Pro-forma NPAT for the year in accordance with Australian Accounting Standards ('AASB').

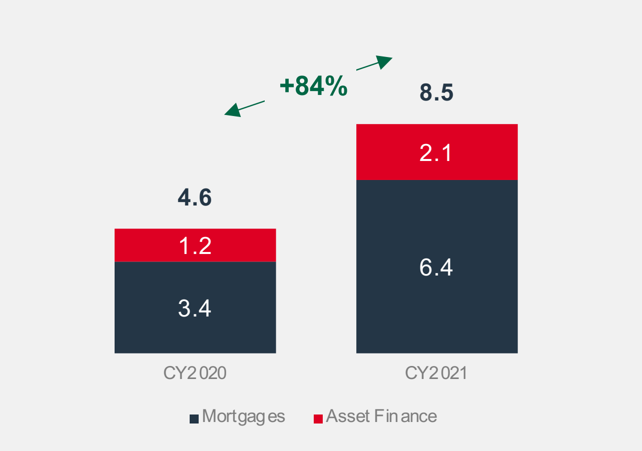
Reconciliation of Statutory Profit to Pro-forma Profit



A$m	CY2021 Statutory	CY2021 Pro-forma	CY2020 Pro-forma	$m Change Pro-forma	% Change Pro-forma
Net interest income	366.6	366.6	352.2	14.4	4%
Other operating income	33.8	33.8	23.4	10.4	45%
Loan losses	(24.6)	(24.6)	(56.7)	32.1	57%
Total operating income	**375.8**	**375.8**	**318.9**	**56.9**	**18%**
Operating Expenses	(154.7)	(144.6)	(138.3)	(6.4)	(5%)
Depreciation and amortisation expense	(24.6)	(24.6)	(24.6)	-	-
Corporate interest expense	(10.3)	(4.3)	(4.8)	0.5	10%
Tax expense	(55.6)	(60.4)	(44.9)	(15.5)	(34%)
Net profit from continuing operations	**130.7**	**141.9**	**106.3**	**35.6**	**34%**

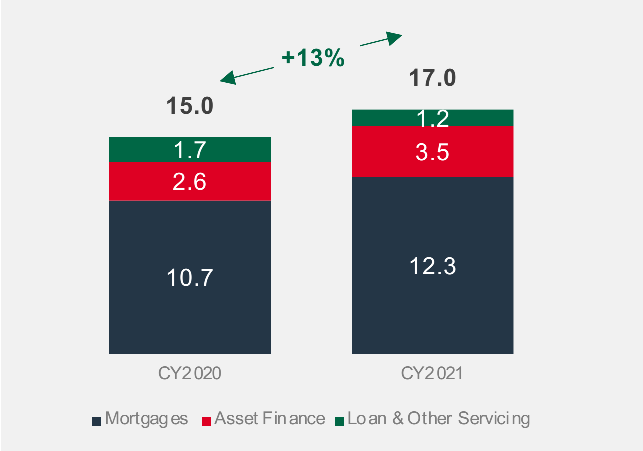
5.2 Financial summary

Originations ($bn)



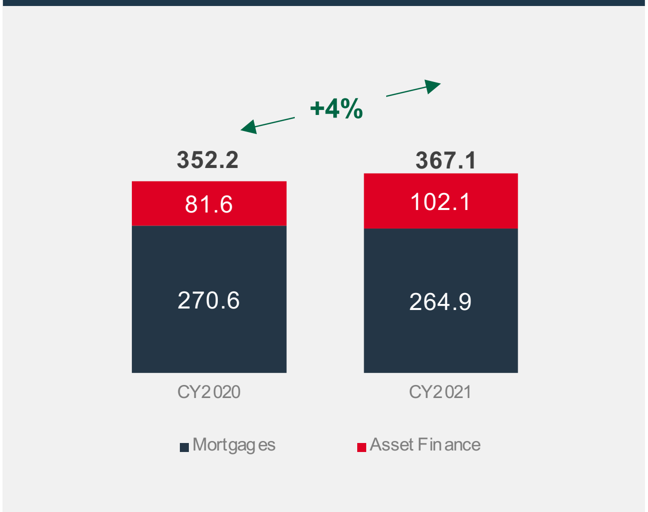
Originations grew $3.9bn on PCP with strong growth being reported across both asset classes: Mortgages up $3.0bn, +89% on PCP and Asset Finance up $0.9bn, 70% on PCP.

Total AUM ($bn)[1]



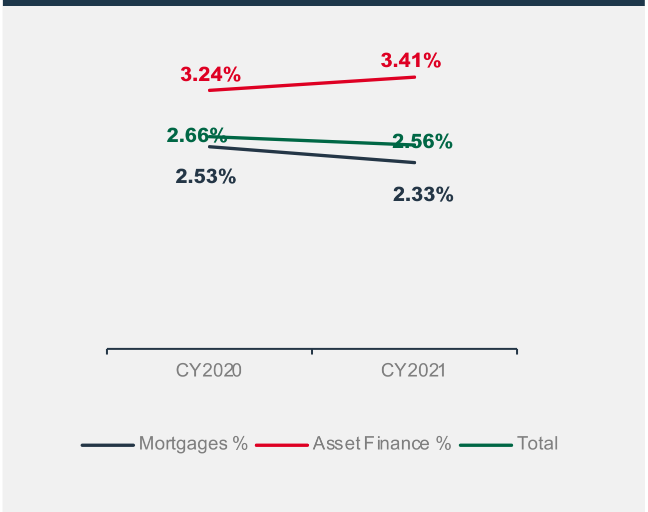
Total AUM as at 31 December 2021 was $17.0bn up 13% on PCP. Lending AUM grew $2.5bn, +19%, on December 2020 close. Mortgages increased $1.6bn, +15%, and Asset Finance increased $0.9bn, +33% on PCP driven by the growth in Originations.

Net Interest Income ($m)[2]



Net Interest Income (excluding Loan & Other Servicing) grew $14.9m, +4% on PCP, driven by higher AUM and favourable cost of funds, partially offset by lower borrower rates that supported high originations growth.

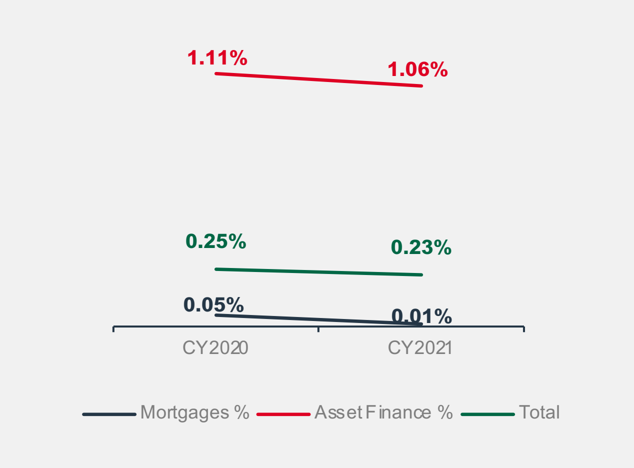
Net Interest Margin (%)



NIM of 2.56% was down 10 basis points on CY2020. The strong mix contribution from Asset Finance, where NIM grew 17 basis points to 3.41%, helping to offset Mortgage NIM compression of 20 basis points, to 2.33%.

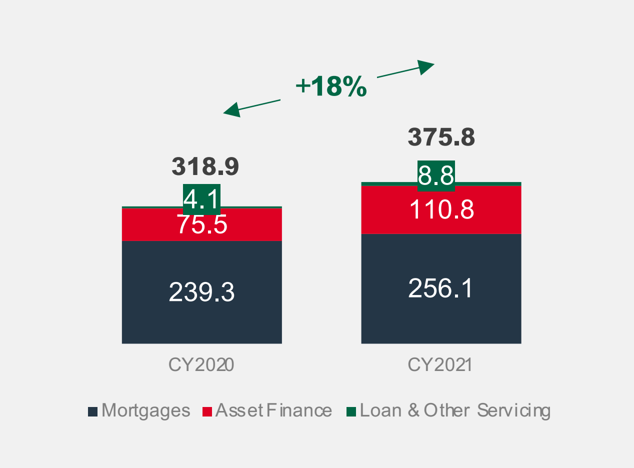
1. Figures displayed are Closing AUM including Lending and Servicing.
2. Loan and Other Servicing segment net interest is not displayed in the bar chart due to materiality.

Loan losses (excluding COVID-19 Management Overlays) as a % of AUM



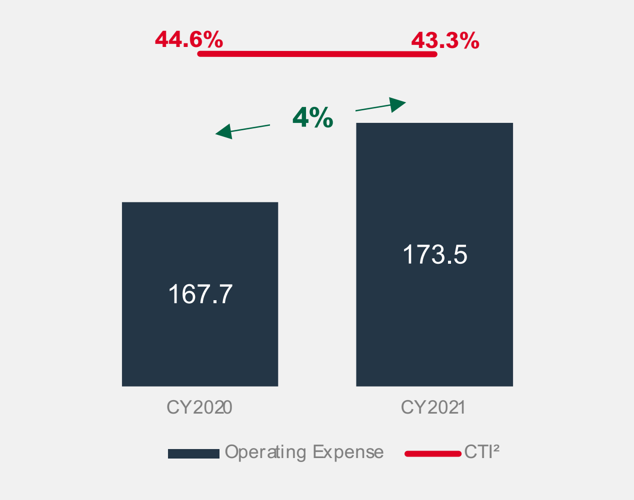
Both the Mortgage and Asset Finance portfolio has performed strongly over CY2021, with Loan Losses as a % of AUM, excluding COVID-19 Management Overlay and releases improved by 2bps CY2021 on CY2020. Asset Finance Loan Losses continue to trend down to a low point of 1.06% - the same in Mortgages trending from 0.05% to 0.01% in CY2021. The business remains well provided for.

Total Operating income ($m)[3]



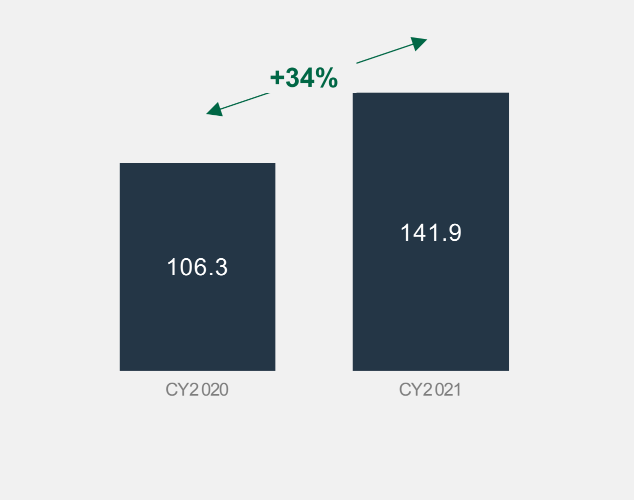
Strong originations and AUM growth, favourable NIM mix from Asset Finance, lower cost of funds and lower loan losses all contribute to Total Operating Income up by $56.9m, +18% on PCP.

Pro-forma Operating expenses ($m) & CTI (%)[4]



Pro-forma Operating expenses increased by $5.8m, 4% on PCP, largely due to variable bonuses / commission in light of the over achievement across all key metrics. Expense initiatives and discipline cost management saw non-employee expenses decline 10% on PCP.

Pro-forma Net Profit After Tax ($m)



The strength of the business across key revenue drivers coupled with ongoing scale economies and discretionary cost management delivered a growth in Pro-forma NPAT of 34% to $141.9m. This also represented 18% over performance vs the IPO Forecast Pro-forma NPAT of $120.7m.

3. Total Operating Income - Corporate segment not shown due to materiality but included in the total.
4. Cost-to-income ratio defined as: Total operating expenses (including depreciation, amortisation and corporate interest) divided by total operating income before loan losses.

6. Funding and Capital

6.1 Funding

As one of Australia's largest and most experienced non-bank lenders, Pepper Money has demonstrated it is a 'benchmark' Australian non-bank issuer of 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 delivered across the various asset classes where it originates loans through a combination of Warehouse Facilities provided by key relationship banks and institutional investors, Term Securitisation transactions (both public and private) and also its Whole Loan Sales program as below:

- **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[5].

During 2021, the following new Public Term Securitisations were issued to facilitate the growth of the business and fund assets:

Public Securitisations

Type	Settlement Date	Issuance Size
RMBS:		
Non-Conforming		
PRS 29	May 2021	$0.75bn
PRS 30	August 2021	$0.85bn
PRS31	November 2021	$0.75bn
Prime		
I-Prime 2021-1	March 2021	A$0.75bn
I-Prime 2022-2	September 2021	A$0.85bn
ABS		
Sparkz-4	December 2021	A$0.80bn

Total warehouse facility capacity as at 31 December 2021 of **$9.9bn** represents a **31% growth on PCP** and positions the Company to continue to capitalise on growth opportunities across all asset classes.

6.2 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.

5. Subject to standard representations and warranties provided by Pepper Money.

The key terms of the **Corporate Debt Facilities** are summarised below:

Facility Name	Syndicated Facility Agreement (known as the Corporate Debt Facility (CDF))	Debt Issuance Program
Commencement Date	27 May 2021	13 October 2021
Facility Size	A$200 million revolving cash advance facility	A$70m
Drawn as of 31 December 2021	A$50m	A$70m (as Floating Rate Subordinated Notes)
Interest and Fees	• At a minimum, the CDF bears interest at the 90-day BBSY 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 Subordinated Notes bear interest at 3-month BBSW (the Australian Bank Bill Swap Rate) plus a margin, which increases over time • A one-off upfront fee paid on drawdown of the Subordinated Notes

At 31 December 2021, Pepper Money had **unrestricted cash balances of $129.4m,** an increase of 35% on PCP. The **Corporate Debt Facilities** at 31 December 2021 were $270.0m of which **$150.0m** was undrawn. This resulted in **total corporate liquidity of $279.4m** as at the end of CY2021.

7. Dividend

The final dividend of **9 cents per share** reflects the **strong capital position** of Pepper Money.

The Dividend Policy set by the Board under the Prospectus[6]

- pay dividends subject to a number of factors including business conditions, available profits, the financial position of Pepper Money, future funding requirements, capital management initiatives, any contractual, legal or regulatory restrictions on the payment of dividends,
- a payout ratio of between 30% and 40% of Net Profit After Tax,
- to pay a final dividend for CY2021 in respect of the period from Completion to 31 December 2021,
- no dividend reinvestment plan has been assumed to be activated by Pepper Money during or in respect of CY2021F.

The final dividend payout ratio is 40% of the Pro-forma NPAT from May to 31 December 2021 is the top of the payout ratio as the Board recognises strong business performance and the ability of Pepper Money to deliver solid returns to shareholders when performance justifies. The dividend will be fully-franked.

Dividend	Pro Forma NPAT	Statutory NPAT
Average Share Price[7]	$2.45	$2.45
WANOS (millions) on issue	439.5	439.5
Dividend %	40.0%	45.1%
Dividend	$39.8m	$39.8m
Dividend per Share	9 cents	9 cents
Dividend yield[8]: Annualised	**5.5%**	**5.5%**

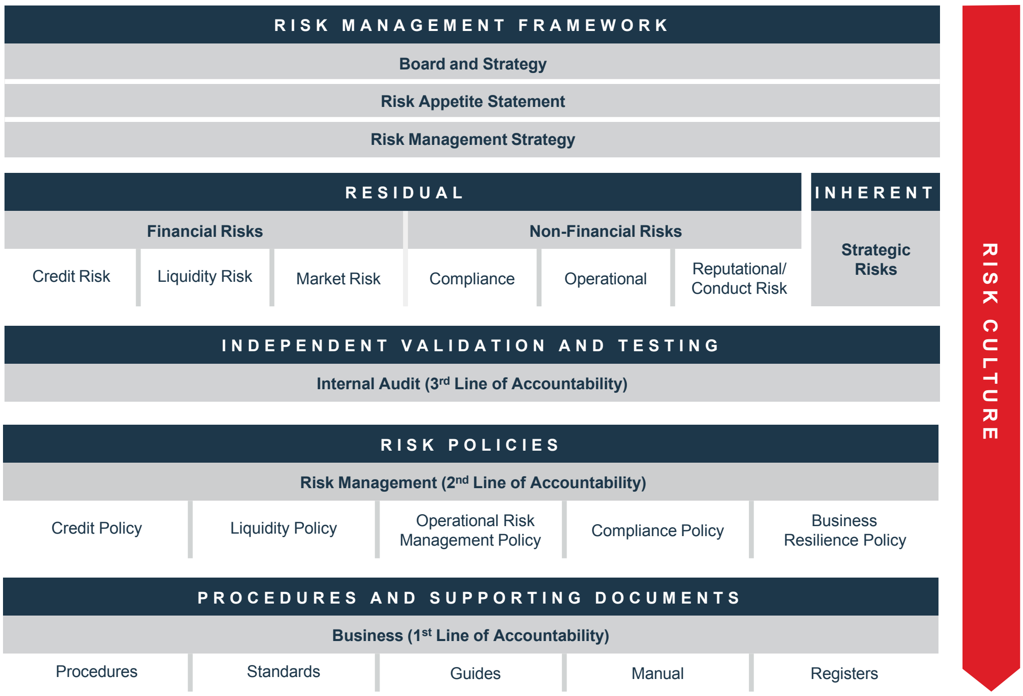
6. Pepper Money Limited Prospectus – Initial Public Offering of Ordinary Shares. Section 4.10 page 181.
7. Average share price as per ASX close: May 25 – 31 December 2021.
8. Dividend yield based on average share price from time of IPO to year end 25 May – 31 December 2021

8. Governance and Risk

8.1 Risk Management Framework

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

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 understood and appropriate level of risk.



All employees 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 line 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 1st line with the management, monitoring and reporting of risks and compliance obligations.

3rd Line: is an independent function – Internal and External 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 a risk governance through a comprehensive committee structure to support the management of risk, 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, with the importance of risk culture driven from the Board to the management team and then across the organisation. This includes operating with an awareness of the three lines of accountability, Pepper Money's strategy and risk appetite and an understanding of how this translates to individual roles, responsibilities and day-to-day processes. The risk culture is reinforced through regular training and communication across all levels of the business.
- **Policies and procedures:** Pepper Money has the required understanding of and adherence to law and regulations across the business. This helps to inform policies, business processes and procedures that cover all aspects of lending and loan servicing. These include but are not limited to: credit, business process, loan documentation, collections and litigation, complaints procedures, accounting, investor reporting, anti-money laundering (AML) and system usage.
- **Risk escalation, monitoring and reporting:** Pepper Money has established risk monitoring procedures alongside a positive risk-informed culture that endorses the escalation of incidents, including the escalation of compliance-related incidents. Risk reporting is designed to enhance improved decision making.

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

8.2 Managing the evolving risk environment

Pepper Money operates in a constantly evolving environment which places the management of risk at the forefront. Pepper Moneys' RMF provides the mechanisms for Board, Management and employees to consider the changing risk environments. Key strategic risks which Pepper Money is bringing to the forefront include:

Macroeconomic conditions

- Macroeconomic factors such as unemployment, underemployment, interest rates, lack of income growth, the amount of customer spending, business investment, government spending, government policy, the volatility and strength of the global and Australian and New Zealand capital markets, currency value and exchange rates all affect the business and economic environment and, ultimately, the volume and performance of Pepper Money's business. Given the majority of Pepper Money's business is in Australia, it is particularly exposed to changes in Australian macroeconomic conditions. A material downturn in the Australian economy, sustained increases in inflation or shocks to the financial system could result in a material increase in unemployment, a return to higher interest rates, a general reduction in demand for credit at a domestic or international level or a reduction in a borrower's ability to pay their debts.

Ongoing management of pandemic conditions

- COVID-19 is an ongoing significant concern globally. Despite the positive uptake of vaccines in Australia and New Zealand the pandemic continues to create uncertainty in financial markets and impact on economic activity, both domestically and globally. The emergence of new variants could potentially lead to high levels of the community requiring isolation or lockdowns and restrictions being extended. These factors have the potential to impact macroeconomic variables that could impact the recovery of the Australian and New Zealand economies.

Risks associated with funding facilities

- Pepper Money's funding platform currently comprises a mix of Warehouse Facilities, Term Securitisations, Whole Loan Sales programs, Corporate Debt Facilities and Debt Issuance Program balance sheet cash. A loss of or adverse impact on one or more of Pepper Money's funding sources, without access to alternative funding sources, could have adverse consequences for Pepper Money, including increased funding costs, limiting Pepper Money's ability to originate new business, originate business on favourable terms, or to refinance maturing Warehouse Facilities or call Term Securitisations.

Credit risk

- Pepper Money is exposed to the risk that its customers do not meet their financial obligations (e.g. their obligation to repay loans) or become insolvent. Customer default is mostly caused by a decrease in the customer's available income or an increase in the customer's payment obligations or living expenses (including increased interest rates). Customer defaults may also increase as a result of adverse business or economic conditions. A change in customer circumstance or a failure by Pepper Money to adequately assess and manage credit risk may result in credit losses, decreased operating cash flows, significant credit impairment expenses, increased funding costs, and reduced access to funding. There is also a risk that pools of loans in Pepper Money's Warehouse Facilities or Term Securitisations trusts may experience losses at a level which results in a loss on the Junior Securities and Credit Risk Retention Securities contributed by Pepper Money to such arrangements. Losses on pools of loans above certain levels may also result in Pepper Money's appointment as manager or servicer of such transactions of those arrangements being terminated, resulting in a loss of the income Pepper Money receives from providing these services.

Increasing cyber threats

- Pepper Money is dependent on the operation of its technology platforms in order to accurately assess customers, provide reliable services and accurate and timely reporting for its customers. There has been an observable increase in high profile cyberattacks on companies in Australia and globally. Any disruption to Pepper Money's technology platform through direct cyberattacks or attacks to our system managed by suppliers can result in serious disruption to systems, create security breaches and 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.

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 risks 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. 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. Pepper Money's objective is to manage regulatory and compliance risk such that the 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.

9. Sustainability

Pepper Money's approach to sustainability aligns with our mission to help people succeed in meeting their financial needs. 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 strives to have a positive impact for our customers, stakeholders, employees, and the environment, and 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.

9.1 Sustainability Framework

In CY2021 Pepper Money undertook an initial materiality assessment to identify the focus areas where Pepper can have the most meaningful positive impact for our stakeholders.

In accordance with Global Reporting Initiative (GRI) , 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. Pepper Money continues to develop its Sustainability Framework to meet ESG challenges.

9.2 CY2021 Initiatives

As the Sustainability Framework evolves, Pepper Money adopts initiatives to ensure we continue to focus on communities and stakeholders. Over CY2021 the following initiatives were implemented:

Electric vehicles

Electronic Vehicle Lending

Pepper Money is a leading originator of electronic vehicles in Australia financing 11%[9] of all fully Electric Vehicles sold in 2021. Since starting its Electric Vehicle financing program, Pepper Money has **facilitated more than 3,800 tonnes reduction of greenhouse gas emissions.**[10]

As the **only finance company on the Electric Vehicle Council of Australia**, Pepper Money is actively working with council members to provide innovative customer solutions and cement its place at the forefront of this rapidly growing segment.

Energy efficient homes

Green Bonds

Pepper Money has been built on discovering new ways to finance its ambition with a mission to help people succeed. In line with this mission, Pepper 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 was the first non-bank to issue RMBS green bonds via its PRS Non-Conforming securitisation program. In CY2022 the Green Bond initiative will be expanded further into Pepper's Money's Prime program.

Pepper Money's Green bond framework is based on the International Capital Market Associations' Green Bond Principles (GBP). Since the introduction of program in CY2018, Pepper Money has assisted families by funding properties that have **saved 27% in Co2 emissions**[11]**.**

Climate and environment

Our People

To celebrate Pepper Money's 21st birthday in 2021 over 7 hectares of protected forest were planted – 21 trees for each Pepper Money employee. This green initiative covers the geographies that Pepper Money operates in, namely Australia, New Zealand and the Philippines (where our shared service employees are based). This will absorb **24 tonnes** of **CO_2 per hectare per year over the first 20 years of growth**[12].

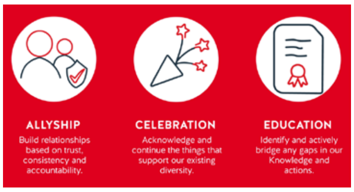
9. 11% calculated as follows: Tesla sales 12,094 (source: EV Council: https://www.abc.net.au/radio/programs/worldtoday/electric-vehicle-sales-in-australia-triple-in-2021/13734340). Other non Tesla Fully Electric Sales 5,149 (source: Federal Chamber of Automotive Industries: https://www.whichcar.com.au/news/australia-electric-vehicle-sales-2021). Total EV Sales 17,243. Financed by Pepper 1,853 or 11%.
10. Based on calculations supplied by the Electric Vehicle Council of Australia.
11. Sustainalytics – Annual Review 'Pepper Group Green Bond'. Dated 2 March 2021. www.pepper.com.au/investors/debt-investors/green-bonds.
12. Winrock International, FLR Carbon Storage Calculator – average measure over life of tree.

Social responsibility

Our community (Pepper Giving Framework)

Pepper Money partners with community-based organisations – that share Pepper values. Over CY2021 the following support was provided under Pepper Money's Giving (G) initiatives:

- **Big G Initiative #1:** Support of Women and Girls Emergency Centre (WAGEC) '**SEED** Program': identifies the Social, Emotional, Educational and Development needs of children and young people whose lives are impacted by homelessness and domestic and family violence. Through Pepper Money's partnership WAGEC was able to help 400+ women and children positively, 64 mentors and mentees supported through Access (another Pepper Money funded program), 39 women and children supported via material aid.
- **Big G Initiative #2:** Support of Chris O' Brien Lifehouse: '**You Can** Centre': You Can is an initiative that partners with hospitals around Australia to build age-appropriate facilities for the care and support of young people with cancer.
- **'Small G'.** Pepper Money's program of funding employee requests to support local charities and communities that are meaningful to them. Over CY2021 more than 20 donations were made across Australia, New Zealand and the Philippines. These donations covered a range of charities from mental health (e.g. Headspace), children & youth (e.g. Miracle Babies) to the disadvantaged (e.g. Sydney Street Kitchen) to diversity (e.g. Turbans 4 Australia).



Diversity and Inclusion

Our Diversity and Inclusion (D&I) strategy

Our strategy is underpinned by our guiding principles of **Allyship, Celebrate, & Educate (ACE):** Our employee profile shows our commitment:

- Gender diversity: Female | Male – **53|47** at 31 December 2021.
- LGBTQIA+: **18%** of employees.
- **24** cultures/**57** languages.
- **22** religions.

Our D&I Strategy was supported over CY2021 by initiatives such as:

- **Diversity in procurement** – D&I questions have been added to Pepper Money's Know Your Supplier (KYS) process.
- **Education and awareness** across 3 key areas: LGBTQIA+, Indigenous awareness & Gender Balance.
- **Sponsorship partnerships:** Pepper Money supports an initiative called SaintsPlay encouraging accessibility to Aussie Rules for children with special needs.

10. Outlook

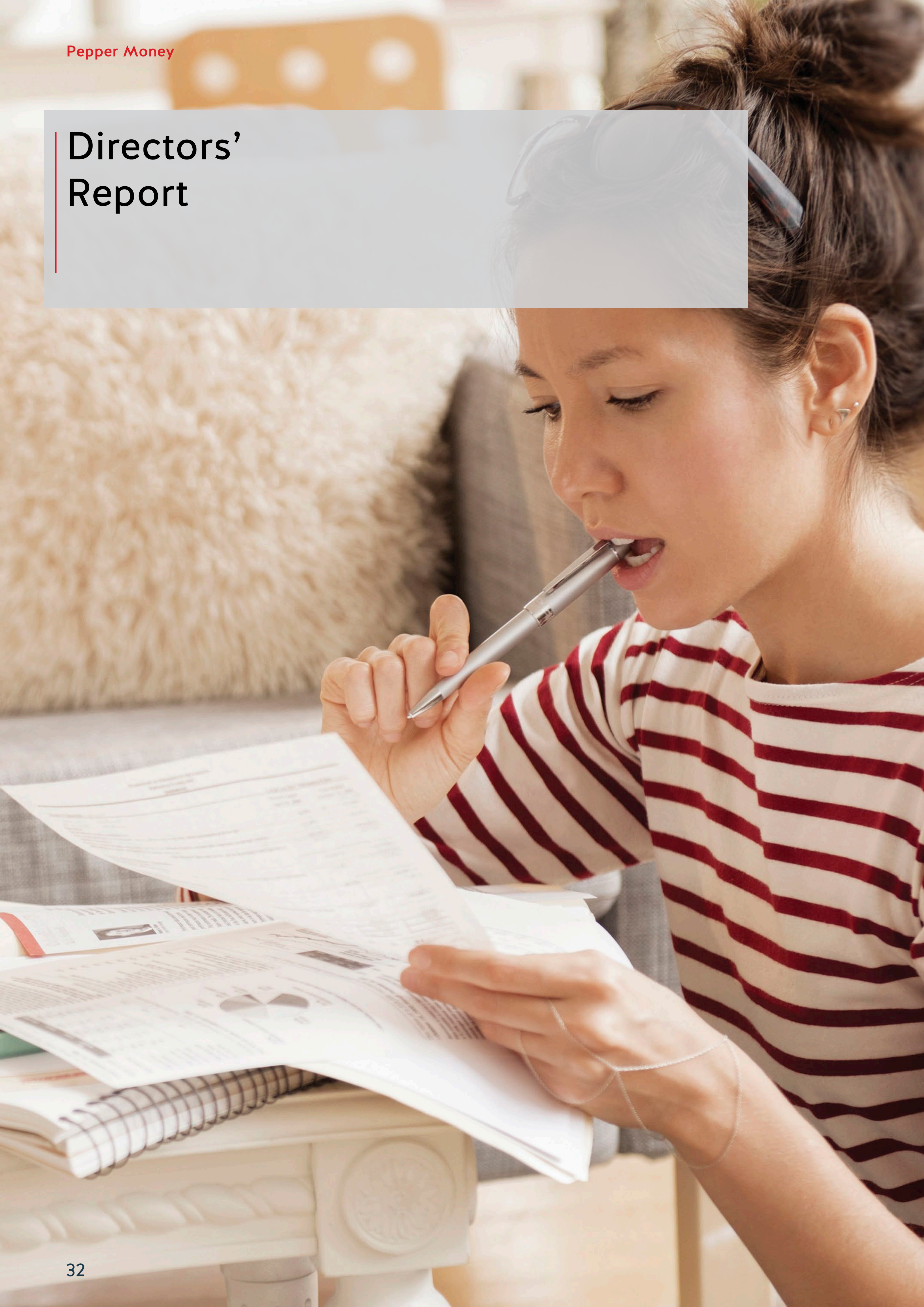
While the start of CY2022 has again brought challenges as the pandemic continues to run its course, Pepper Money has never been better placed, and as shown through its performance over CY2021, has the capability to adapt and grow through all cycles.

Looking ahead to CY2022 Pepper Money's growth strategy and medium-term growth outlook continues to be structured on building sustainable AUM at an acceptable risk-adjusted returns. 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 has a large total addressable market of $2.3 trillion and $0.2 trillion of credit outstanding in Mortgages[13] and Asset Finance[14] target markets respectively. Within these large total addressable markets, Pepper Money has established a history of focusing on underserved market segments where Pepper Money can use its expertise to deliver value for customers and generate an appropriate risk-adjusted return for its business.
Agility to respond to market conditions	• **Flexibility in platform:** strength of systems, technology and the platform allow Pepper Money to respond quickly to changes in market conditions. • **Data-driven insights:** allows Pepper Money to identify new trends and opportunities and respond in a timely manner. • **Disciplined approach:** to growth and pricing, leveraging 21+ 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.
Extension into new markets	• Before the initial onset of COVID-19 in early 2020, Pepper Money had entered the **New Zealand residential home loans and Australian CRE loans** in Q4 2019. Opportunities to accelerate growth as conditions around the pandemic normalises.
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 partnerships	• **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.

13. Combination of Australia and New Zealand mortgage markets as at December 2021 (Total housing credit, RBA D2 Lending and credit aggregates (including owner-occupier housing credit and investor housing credit)); Housing, RBNZ C5 Sector lending (registered banks and non-bank lending institutions), December 2021, converted at an assumed exchange rate of NZD:AUD = 0.9331.
14. 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 2021 – December 2021 (published February 2022). Assumes market size is approximately 4x lending commitments for last 12 months.

Directors' Report



The Directors of Pepper Money Limited ('Pepper Money' or the 'Company') (formerly Pepper Group Pty Limited) present their report, together with the financial statements of Pepper Money Limited and its controlled entities ('the Group') for the year ended 31 December 2021 ('the period') which is designed to provide shareholders with a clear and concise overview of Pepper Money's operations and the financial position of the Group. The review complements the financial report.

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

Board of Directors

The profiles of the Directors' have been included on pages 6-8.

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 (appointed 20 January 2011).

Mario Rehayem

Chief Executive Officer (appointed 2 May 2018).

Des O'Shea

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

Mike Cutter

Independent Non-Executive Director (appointed 6 May 2021).

Akiko Jackson

Independent Non-Executive Director (appointed 6 May 2021).

Justine Turnbull

Independent Non-Executive Director (appointed 6 May 2021).

Rob Verlander

Independent Non-Executive Director (appointed 6 May 2021).

Therese McGrath

Non-Executive Director (resigned 6 May 2021).

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:

	Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
Michael Culhane	12	12	3	3	3	3
Mario Rehayem[1]	12	12	X	X	X	X
Des O'Shea	11	11	3	3	3	3
Mike Cutter[2]	11	11	3	3	X	X
Akiko Jackson	11	11	3	3	3	3
Justine Turnbull[3]	11	11	X	X	3	3
Rob Verlander	11	11	3	3	3	3
Therese McGrath[4]	1	X	X	X	X	X

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.

Directors' 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 2021.

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 2021 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 36-68 and forms part of the CY2021 Directors' Report.

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.
4. Therese McGrath resigned on 6 May 2021. As Pepper Money Limited's Chief Financial Officer, Therese attends the Audit and Risk Committee and Board Meetings at the invitation of those Committees and the Chair.

Principal Activities

Pepper Money is one of the largest non-bank lenders in the Australian mortgage and asset finance markets. Pepper 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 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, as well as expand into 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.

Corporate restructure

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

- Pepper Global TopCo Limited ('TopCo') was established as the new ultimate parent company of Pepper Money Limited.
- Topco owns 100% of the shares in Pepper Global Midco Limited ('Midco') which in turn owns 100% of the shares in Pepper Group ANZ Holdco Limited ('Holdco').
- Holdco became the sole pre-Initial Public Offering ('IPO') shareholder of Pepper Money Limited (and its controlled entities) and is the holding company of the Australian operations of the Group.
- Assets and liabilities that did not pertain to the ongoing business activities and operations in Australia and New Zealand or its shared service operations in the Philippines were sold into separate holdings outside of the Group. These represent Discontinued operations and are presented in more detail in Note 16.

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

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

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

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

Presentation of financial information

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

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

Dividends

The Board of Pepper Money Limited has declared a fully franked final dividend of 9 cents per share on 23 February 2022. The Record Date is 15 March 2022. The payment date will be 14 April 2022. The dividend has not been provided for in this financial report.

The final dividend payout ratio is 40% of the Pro-forma NPAT from May to 31 December 2021 which is at the top of the target payout ratio as the Board recognises strong business performance and the ability of Pepper Money to deliver solid returns to shareholders when performance justifies. The dividend will be fully-franked.

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

Further details on the Dividend are provided in Note 3.

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 8 of the Operational and Financial review.

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

Sustainability

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 CY2021 initiatives to reduce environmental impact and support social responsibilities are covered in Section 9 of the Operational and Financial review.

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 pages 139-141 and forms part of this report.

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 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 15 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
24 February 2022

Remuneration Report

The Remuneration Report for the year ended 31 December 2021 (**2021 Calendar Year or CY2021**) 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 *AASB 124 Related Party Disclosures*, and 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:

Section	Description
Letter from the Chair of the Remuneration and Nomination Committee – Page 41.	A brief introduction from the Chair of the Remuneration & Nomination Committee outlining the Board's view of performance and reward in CY2021.
1. People covered by this report – Page 42.	This section provides details of Key Management Personnel (**KMP**), who are subject to the disclosure requirements of this report.
2. Remuneration Overview – Page 42-47. 2.1 Executive Remuneration Structure at-a-glance 2.2 CY2021 Company performance at-a-glance 2.3 CY2021 Executive remuneration opportunities and outcomes at-a-glance 2.4 Key KMP Remuneration Governance considerations and changes	This section provides an overview of performance and reward for CY2021, including summaries and commentary on governance matters.
3. Pepper Money's Remuneration Strategy, Policy and Framework – Page 47-56. 3.1 Overview of the KMP Remuneration Governance Framework 3.2 Interface between Remuneration Governance Framework and Risk Framework 3.3 Executive Remuneration – Fixed Pay, Total Remuneration Package and the Variable Remuneration Framework 3.4 CY2021 Short Term Variable Remuneration Plan 3.5 CY2021 Long Term Variable Remuneration Plan 3.6 One-Off IPO Equity Plan 3.7 CY2021 NED Remuneration 3.8 Non-KMP Executive Remuneration	This section provides details of the elements of the remuneration framework, including market positioning, variable remuneration principles, and the terms of variable remuneration.
4. The link between performance and reward in CY2021 – Page 57-59. 4.1 CY2021 Short Term Variable Remuneration outcomes 4.2 Achieved Total Remuneration Package for CY2021 4.3 Use of Board Discretion	This section addresses CY2021 short and long term variable remuneration performance and reward outcomes for performance measurement periods completed in CY2021.
5. Statutory Tables and Supporting Disclosures – Page 60-68. 5.1 Executive KMP Statutory Remuneration for CY2021 5.2 NED KMP Statutory Remuneration for CY2021 5.3 KMP equity interests & changes during CY2021 5.4 KMP Service Agreements 5.5 Other Statutory Disclosure	This section provides the statutory disclosures not addressed by preceding sections of the report, including statutory remuneration tables, changes in equity, KMP service agreements, related party transactions, and the engagement of external remuneration consultants.

Definitions

The following definitions apply to the terms used in this section of the report:

Term	Meaning
AUM	Pepper Money's total assets under management which reflects the sum of Lending AUM and Servicing AUM.
ASX	Australian Securities Exchange.
EPS	Earnings Per Share calculated as NPAT divided by the number of shares on issue at the end of the financial year.
Equity	a financial instrument linked to Pepper Money Limited Shares, including Shares, rights, options or derivatives for example.
ESG	Environmental, Social and Governance.
Fixed Pay	the sum of fixed aspects of remuneration including salary, allowances, benefits, FBT and superannuation to the extent they may be applicable.
Exercise Restriction	a period during which a Participant may not exercise vested Rights.
FBT	Fringe Benefits Tax.
IPO	Initial Public Offering, or the date of listing of Pepper Money on the ASX.
iTSR	Indexed TSR which is a form of relative TSR.
KMP	Key Management Personnel as defined under the accounting standards.
LTVR	Long Term Variable Remuneration.
NED	Non-Executive Director.
NPAT	Statutory Net Profit After Tax.
Percentile (e.g. P50 or P62.5)	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.
Pro-forma NPAT	Net Profit After Tax excluding one off non-recurring IPO related items.
ROE	Return on Equity (Pro-forma NPAT divided by Equity).
STVR	Short Term Variable Remuneration.
TSR	Total Shareholder Return, being the sum of change in share price plus dividends assumed to be reinvested.
Variable Remuneration	remuneration that is subject to the fulfilment of conditions.

Letter from the Chair of the Remuneration and Nomination Committee

Dear Shareholders,

As the recently appointed Chair of the Remuneration & Nomination Committee and on behalf of the Board, I am pleased to present Pepper Money's inaugural Remuneration Report for the year ended 31 December 2021 (CY2021).

Establishing a strong remuneration governance framework that supports long term value creation

Following the listing of Pepper Money on the ASX on 25 May 2021, the Board has continued to develop the remuneration governance framework that supports long term value creation. The framework is designed to align the interests of Key Management Personnel (KMP), the Directors and employees with shareholders. The framework also reflects the expectations that now apply to Pepper Money as a listed entity and in respect of a new and growing group of stakeholders.

CY2021 reward outcomes reflect our performance

The Board through its Remuneration and Nomination Committee has assessed CY2021 performance against the short and long financial and non-financial performance indicators as set out in sections 2.2 and 3.4 which have been chosen with a clear expectation to deliver sustainable shareholder returns over the medium to long term.

As reported in the Chair's letter and the Operating and Financial Review, CY2021 has been a record year for Pepper Money, with the Company exceeding the IPO forecasts across a number of financial metrics. This is reflected in the award of short-term variable remuneration outcomes. As can be the case following an IPO, the Share Price movement from listing to the close of the calendar year has been volatile. The Board remains confident that the Executive team can deliver value for new shareholders over the long term. This is supported by a strong remuneration framework that is aligned with this objective that requires:

- IPO grants of equity will not vest if the Share Price does not exceed the IPO price; and
- long term variable remuneration structures require positive TSR for new shareholders in order for full vesting to occur.

In addition, the Board and the Executive team have been focused on new opportunities for strategy development and growth to create further value for shareholders and other stakeholders over the next two to three years.

Diversity and Inclusion (D&I)

Pepper Money's strong and sustained profitable growth is delivered by a highly engaged workforce as demonstrated by the exceptional achievement of an engagement score of 80 in CY2021.

D&I underpin the unique culture at Pepper. Employees are empowered through respect and appreciation to embrace what makes them different. With more than 900 employees across Australia, New Zealand and the Philippines, we have a highly diverse workforce including a gender split close to 50/50, 57 different languages, an association of 24 different cultures and 18% identify as LGBTQI+.

Pepper'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'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 Illawarra Hawks to drive support for their D&I community programs, and encourage third party suppliers and vendors to commit to the alignment of Pepper's values and principles.

Looking ahead

The Board is comfortable that the remuneration outcomes for CY2021 are appropriately aligned with performance. CY2022 will be Pepper Money's first full year post-listing. We expect our remuneration structures to provide an even stronger link between performance and reward. This is the foundation of Pepper Money's KMP remuneration governance framework.

We invite shareholders to come on our journey by supporting the Remuneration Report, and we welcome constructive feedback from them.

Justine Turnbull
Chair, Remuneration and Nomination Committee

1. People covered by this report

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

Table 1

Name	Role at Year-End	KMP in CY2021	Committee membership	
			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	from 6 May 2021	✓	✓
Mike Cutter	Independent Non-Executive Director	from 6 May 2021	C	*
Akiko Jackson	Independent Non-Executive Director	from 6 May 2021	✓	✓
Justine Turnbull	Independent Non-Executive Director	from 6 May 2021	*	C
Rob Verlander	Independent Non-Executive Director	from 6 May 2021	✓	✓
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.

The following change to KMP occurred during CY2021 or between the end of CY2021 and the date of publication of this report:

- Therese McGrath resigned as Director on 6 May 2021.

2. Remuneration Overview

2.1. Executive Remuneration Structure at-a-glance

During CY2021, the remuneration structures were largely those that were in place in the years prior to listing, although some one-off arrangements were directly related to the listing process. In respect of CY2021, Executive remuneration included Fixed Pay, short-term bonuses, long-term incentive grants and IPO equity. STVR is Short Term Variable Remuneration, and LTVR is Long Term Variable Remuneration.

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

Chart A

Pepper Money's Remuneration Framework Overview

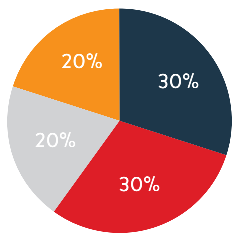
	Fixed Pay	Variable Remuneration	
		Variable Remuneration is not intended to be a 'bonus', but a blend of at-risk remuneration (below Target) and incentives (above Target and up to Stretch/Maximum).	
		Short Term Variable Remuneration	**Long Term Variable Remuneration**
Purpose	To pay fairly (around P50) 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.
CY2021 Approach	Benchmarking against a balanced group of 20 comparably sized ASX listed companies with similar features.	See below	See below

Short Term Variable Remuneration

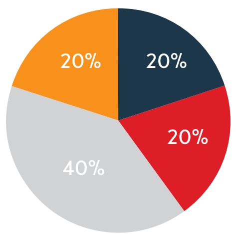
Opportunity as % of Fixed Pay

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

CEO



CFO



- NPAT
- Assets Under Management
- Strategic Objectives
- Individual

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.

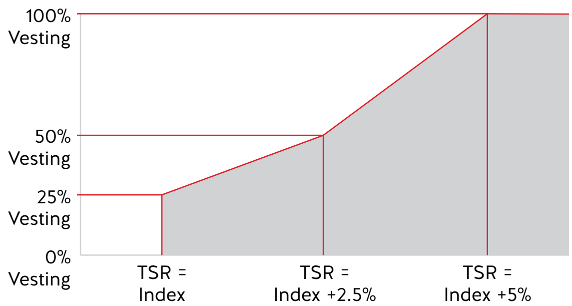
Long Term Variable Remuneration

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:



Performance Level	Return on Equity	% of Tranche Grant Vesting
Stretch	>19%	100%
Target	>/= 18% to 19%	50%
Threshold	%15 to <18%	25%
Below Threshold	<15%	0%

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 Framework Timeline CY2021

<table>
<tr><th>Element</th><th>CY2021</th><th>CY2022</th><th>CY2023</th><th>CY2024</th></tr>
<tr><td>Fixed Pay</td><td>Fixed Pay</td><td></td><td></td><td></td></tr>
<tr><td rowspan="4">Short Term Variable Remuneration (STVR)</td><td>STVR Measurement Period</td><td>Audit Results, Gate Check</td><td></td><td></td></tr>
<tr><td></td><td>65% Cash Award</td><td></td><td></td></tr>
<tr><td></td><td>35% Restricted Rights</td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Restricted Rights Exercise Restriction</td><td></td></tr>
<tr><td rowspan="2">Long Term Variable Remuneration (LTVR)</td><td colspan="3">Tranche 1 Performance Rights Measurement Period – iTSR (50%)</td><td rowspan="2">Audit Results, Gate Check and Vesting Determination</td></tr>
<tr><td colspan="3">Tranche 2 Performance Rights Measurement Period – ROE (50%)</td></tr>
<tr><td rowspan="2">One-off IPO Equity Grant</td><td colspan="2">Service Test</td><td>Gate Check and Vesting</td><td></td></tr>
<tr><td></td><td></td><td>Exercise Restriction</td><td></td></tr>
</table>

The same structure (excluding one-off IPO Equity Grant) is expected to apply in CY2022, as at the time of writing.

2.2. CY2021 Company performance at-a-glance

The following outlines Pepper Money's performance in CY2021, 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	Net Profit After Tax ($m)	Share Price (beginning of period)	Share Price (end of period)	Change in Share Price $
31/12/21	$130.70	$2.61	$2.16	–$0.45

Note: due to the recent listing of Pepper Money it is not possible to show metrics for the prior 4 financial years.

Table 3 Remuneration linked performance indicators

Remuneration Link	Metric	Rationale for Metric Use	CY2021 Outcome*	Outcome Quality
STVR	Group Pro Forma NPAT	Pro Forma NPAT is the primary measure of financial performance typically focussed on by shareholders, and drives share price.	$141,926,967	Above Stretch
	Assets Under Management	AUM is the primary lead indicator of business growth under the strategy, and is a key focus of the strategy.	$16,961,000,000	Above 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)	If profit generated is insufficient, rewards become unaffordable and should not be paid.	$141,926,967	Gate Exceeded
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.	-26.95%	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.	22.30%	Above Stretch
	Positive TSR (Gate)	When TSR is negative, shareholders are losing wealth, and executives should not be rewarded.	-26.95%	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.	$2.16	Gate Not Met

* The commentary relates to the outcome from the start of the Measurement Period to the end of CY2021. In the case of the LTVR, this relates to the first year of the 3-year Measurement Period, which is incomplete (no vesting will occur until after CY2023). For the IPO grant, vesting will not be determined until after CY2022.

** These metrics are assessed separately for CEO and CFO. For details, please refer to Table 7 and Table 8 of section 4.1.

In addition to these indicators of Company performance and value creation, the following were notable performance achievements for the year:

(a) Successful listing on the ASX;

(b) ISO27001 Information Security Management System Certification;

(c) Customer NPS scores grew over the year with +19 score for Home Loans and +38 for Asset Finance, representing an 11-point increase for Mortgages from the prior year;

(d) Pepper Money was the most active issuer in the public securitisations markets with 6 deals delivering a record $4.8bn in funding *(source: Westpac: 'Australian Securitisation: 2021 in Review. 2022 Year Ahead'. 15th December 2021, page 16 and 17);*

(e) Over CY2021 Pepper increased warehouse capacity by 31% taking total capacity to $9.9bn across 13 facilities by year end;

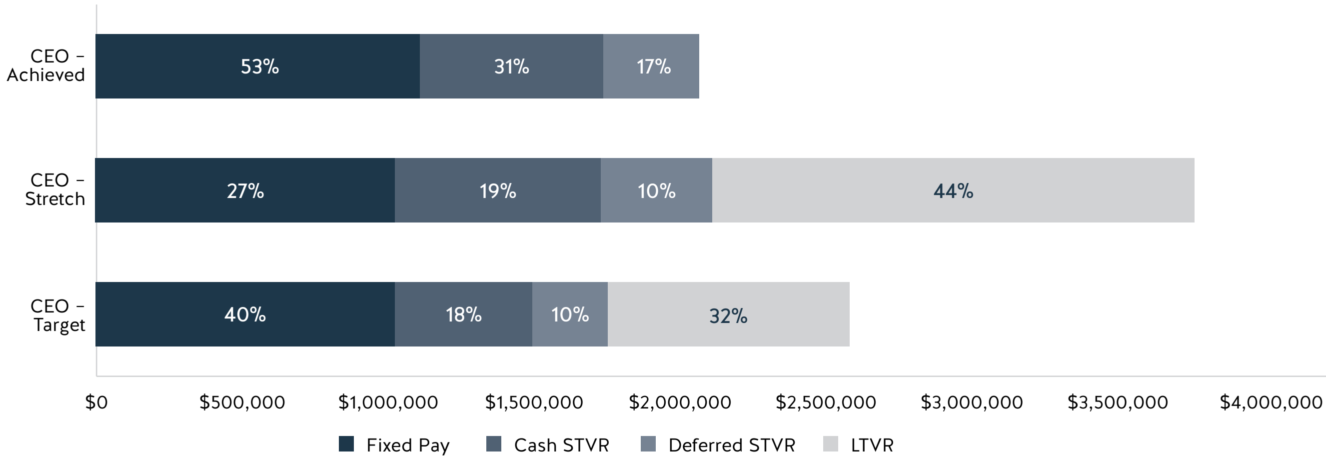
(f) Winner of the Australian Mortgage Awards Best Non-Bank of the Year 2021; and

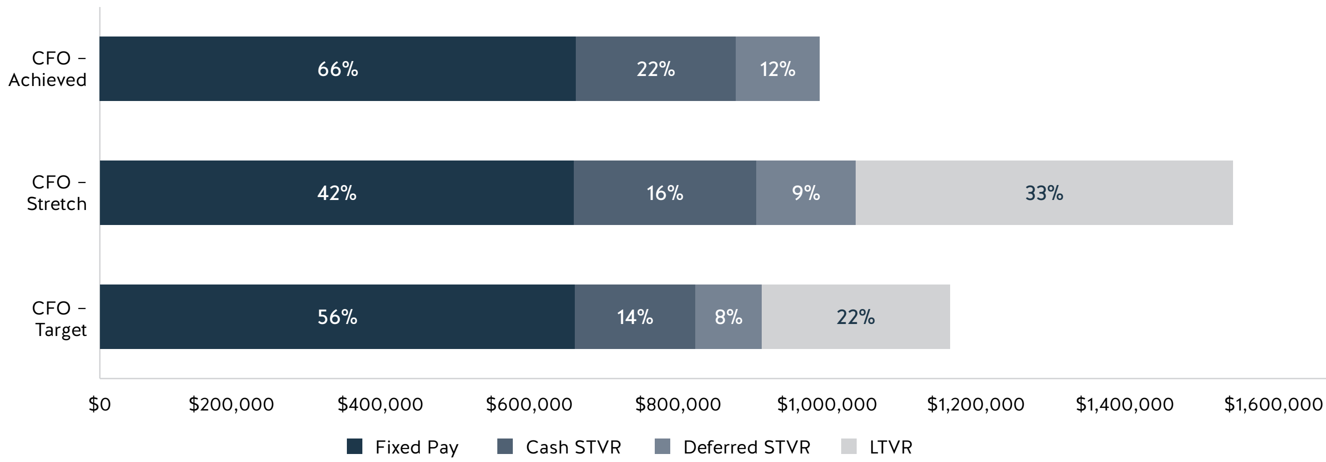
(g) Winner of the Australian Mortgage Awards Best Industry Marketing Campaign of the Year 2021.

2.3. CY2021 Executive remuneration opportunities and outcomes at-a-glance

The following charts outline the remuneration opportunities under Pepper Money's Executive remuneration structures, with the outcomes dependent on performance over CY2021 for STVR and LTVR, and the 'Achieved' remuneration payable in respect of the completed CY2021 year and performance delivered. The IPO Equity Grant is a one-off grant not shown as part of the regular Target value and will not have an opportunity to vest until after the end of CY2022):

Chart C





Note: 'Achieved' refers to Fixed Pay received during CY2021, Cash STVR awarded in respect of CY2021 performance and the amount of deferred STVR payable in respect of CY2021 that is not subject to vesting conditions (i.e. awarded after the end of the year).

2.4. Key KMP Remuneration Governance considerations and changes

The following summarises the key remuneration governance matters that were the focus of considerations in CY2021, and those that are expected to be addressed in CY2022:

(a) Development of remuneration governance structures, frameworks and policies that align with the ASX Corporate Governance Principles and recommendations.

(b) Benchmarking executive and director remuneration against ASX listed market data to inform quantum and mix decisions intended to meet post-listing strategy and market positioning.

(c) Development of new STVR and LTVR plans intended to align performance with reward and meet ASX market stakeholder expectations and relevant legislation.

(d) Development of KMP equity structures for both Executives and Non-Executive Directors that are compliant with the governance requirements applicable to each group.

(e) Developing general employee equity plans to support employee engagement, alignment and motivation.

(f) Designing one-off remuneration structures to align key executives with new shareholders directly as part of the IPO process.

It is expected that the remuneration structures that were offered in C20Y21 will be offered in their current form, although subject to an annual review of hurdles ('calibration'), to KMP in CY2022, with the exception of the IPO equity grant which was a one-off arrangement.

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

3.1. Overview of the KMP Remuneration Governance Framework

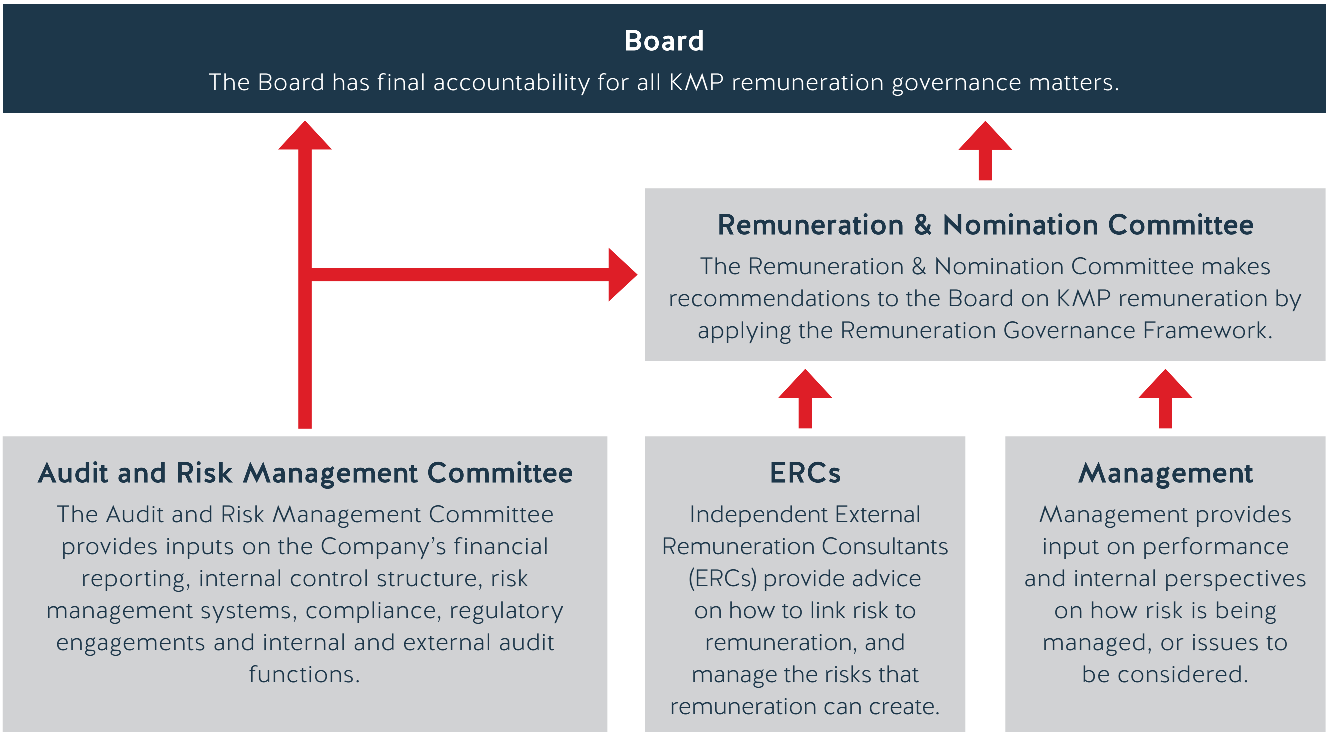
The following table outlines the elements and purpose of each element of the Pepper Money KMP remuneration governance framework. The framework is intended to provide clarity to all stakeholders regarding approaches, rationale and Board position in relation to KMP remuneration governance matters.

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, focusing on the link between performance and reward.
NED Remuneration Policy and Procedure	Outlines the principles underpinning Non-Executive Director (**NED**) 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 (**STVR**) 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 (**LTVR**) 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.

Element	Purpose
NED Equity Policy and Procedure	Outlines the principles underpinning the design and implementation of equity-based remuneration structures for NEDs, focused on creating alignment with shareholders while preserving NED independence.
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.
NED Equity Plan	Defines the rules, terms and conditions that form the equity component of fees for NEDs.
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.

3.2. Interface between Remuneration Governance Framework and Risk Management Framework

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



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

Executive KMP remuneration is to be 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 based on 20 companies from the same market sector, within a range of 50% to 200% of the market value of Pepper Money at the time, and evenly balanced to ensure measures of central tendency are relevant. Benchmarks may be adjusted upwards or downwards for variations in role design compared to market benchmark roles.

Fixed Pay (FP) comprises base salary plus any other fixed elements such as superannuation, salary sacrifice amounts, allowances, benefits and fringe benefits tax. Fixed Pay is intended to be positioned at around P50 of market benchmarks for comparably designed roles, subject to a range of +/- 20% compared to the policy midpoint, to reflect individual/incumbent factors such as experience, qualifications and performance.

The Board intends to review Fixed Pay annually which may have flow-on implications for variable remuneration which is expressed as a percentage of Fixed Pay.

Total Remuneration Package (TRP) is intended to be composed of an appropriate mix of remuneration elements including Fixed Pay, short term variable remuneration (STVR) and long-term variable remuneration (LTVR). The Target TRP (TTRP, being the TRP value at Target/Expected performance) 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, when benchmarks 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, total package market data P50 benchmark values are lower than actual P50 opportunities offered to incumbents in the market. This has been established by research conducted by the Board's appointed independent External Remuneration Consultant (ERC). The Board has selected P62.5 as the intended TTRP 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 P62.5 to P100	Exceeds Expectations
Target – Expected Reward	**P62.5**	**Meets Expectations**
Threshold to Target – At Risk/Down Side	P50 to P62.5 P50	Below Expectations
Fixed Pay Only	P10	Below Threshold

3.4. CY2021 Short Term Variable Remuneration (STVR) Plan

A description of 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 2021 to 31 December 2021
Opportunity	<table><tr><th></th><th colspan="2">Opportunity as % of Fixed Pay</th></tr><tr><th></th><th>Target</th><th>Stretch</th></tr><tr><td>Chief Executive Officer</td><td>70%</td><td>105%</td></tr><tr><td>Chief Financial Officer</td><td>40%</td><td>60%</td></tr></table>
Outcome Metrics and Weightings	For CY2021, the following metrics and weightings applied: • For the CEO, Mario Rehayem: – Group Pro-forma NPAT – 30% – Total Assets Under Management – 30% – Delivery of successful IPO – 20% – Individual Effectiveness (People and Risk) – 20% • For the CFO, Therese McGrath: – Group Pro-forma NPAT – 20% – Total Assets Under Management – 20% – Delivery of successful IPO – 20% – Effective, accurate and timely financial controls and reporting including successful transition of financial and statutory reporting to ASX requirements – 10% – Net Leverage Ratio – 10% – Individual Effectiveness (People 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 CY2021. Refer to the section 4.1 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 at least 'Meet Expectations' or better, and • At least 85% of budgeted group Pro-forma NPAT must be achieved. If both of these gates are not met or exceeded, 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 CY2023. Any grant of deferred STVR Restricted Rights will be calculated based on the volume-weighted average price of Pepper Money shares over 10 trading days following the release of prior year financial results. 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.

3.5. CY2021 Long Term Variable Remuneration (LTVR) Plan

A description of 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 2021 to 31 December 2023 (3 years). Note: TSR can only be measured from the date of listing which was 25 May 2021. Note: ROE can only be measured from 1 July 2021 due to the restructuring of the business.
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 the Black-Scholes value of a Right (ignoring vesting conditions and not discounted) based on the IPO Offer Price of $2.89.
Opportunity and Grant Value	(see below)

Opportunity as % of Fixed Pay

	Target	Stretch
Chief Executive Officer	80%	160%
Chief Financial Officer	40%	80%

Based on the Right Value of $2.89, the maximum/stretch level of grants made to KMP disclosed in this report respect of CY2021 LTVR were as follows:

- For the CEO, Mario Rehayem: 569,896 Performance Rights
- For the CFO, Therese McGrath: 172,389 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

The Board has discretion to set Vesting Conditions for each tranche of each Invitation. For CY2021 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 CY2021 to CY2023 with the TSR of the ASX 300 Financials (Sector) Total Return Index, according to the following vesting scale:

Table 4

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

TSR is the sum of 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 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

Performance Level		% of Tranche Vesting
Stretch – Incentive/ Upside	Greater than 19%	100%
Target – Expected Outcome/At-Risk	**Between 18% and 19%**	**50%**
Threshold – Minimum Acceptable Outcome	Between 15% and 18%	25%
Below Threshold	Less than 15%	0%

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 the cost of equity.

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 Risk measurement must be at least 'met 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.

3.6. One-Off Executive IPO Equity Plan

As part of retaining key executives and aligning their interests directly with new shareholders, the Board offered the Chief Executive Officer and Chief Financial Officer, both KMP, a one-off IPO equity opportunity, under Pepper Money's Rights Plan, described below:

Purpose	The purpose of the IPO-Grant is to: (a) smooth the introduction of an equity plan that was previously absent in the remuneration mix, noting that after the third year, the LTVR will have an opportunity to vest annually, but that there is a 3-year delay after first introduction, (b) demonstrate to shareholders that there is a specific incentive intended to retain key talent until the end of the calendar year that follows the year of listing, noting that there is no LTVR or retention tool in place in respect of CY2021, and (c) demonstrate to shareholders that there is a specific incentive linked to delivery of the prospectus financial forecasts and growth in the Share Price over the IPO Offer Price.
Measurement Period	From the date of listing until 31 December 2022.
Instruments	The IPO-Grant is in the form of Service Rights (50%) with a nil Exercise Price, and Share Appreciation Rights (SARS, 50%) with a notional Exercise Price equal to the IPO Offer Price, which are subject to performance and service vesting conditions.
Grant Calculation	The number of Rights granted was calculated via the application of the following formula: **Number in Tranche = Target Grant $ ÷ Right Value x Tranche Weighting** where Right Value is equal to the Black-Scholes value of a Right (undiscounted for vesting conditions) based on the IPO offer price of $2.89. • Number of Service Rights = Target Grant $ ÷ $2.89 (IPO offer price) x 50% • Number of SARS = Target Grant $ ÷ $1.00 (Black-Scholes SAR Value) x 50% The number of Rights granted were as follows: • Mario Rehayem (CEO); 267,139 Service Rights and 771,631 SARs based on a 'Target Grant $' of $1,544,062. • Therese McGrath (CFO); 161,615 Service Rights and 466,824 SARs based on a 'Target Grant $' of $934,132.
Term and Lapse	The Term of the SARS granted is 5 years from the Grant Date and for Service Rights granted, the term 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.
Vesting Conditions	The IPO equity grant is subject to continued service for the whole of the measurement period. Conditions will not be assessed, and vesting will not occur prior to the end of the measurement period. The design of the SARs is such that a benefit will only arise if and to the extent the Share Price is above the IPO Offer Price at the time of exercise. These conditions were selected to directly align Participants with the experience of new shareholders in terms of Share Price, and to ensure they are committed to delivering the prospectus forecasts.
Gates	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) must equal at least the Offer Price ($2.89). This gate was selected because it directly aligns the reward opportunity with preserving or growing investments made by new shareholders at the IPO.
Retesting	No retesting facility is available under the Rights Plan Rules.
Cessation of Employment	Cessation of employment prior to the end of the relevant period will result in the forfeiture of the Rights and SARS (unless determined otherwise by the Board) which is a special term of the IPO grant.

Corporate Actions	In the case of a Change in Control, nothing happens by default. In the case of a 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. 100% vesting will occur for SARs because they have only a marginal value. 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 awards upwards or downwards, including to nil, in the circumstance that the award 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 IPO grants). IPO 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 IPO equity.

3.7. CY2021 Non-Executive Director (NED) Remuneration

3.7.1 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 and 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 6

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. Equity grants, are deducted from the Board fees from the date the grants are allocated to the end of CY2021.

Aggregate Board Fees

The total amount of fees paid to Non-Executive Directors in the year ended 31 December 2021 is within the aggregate amount set 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.

3.7.2 NED Fee Sacrifice Equity Plan

A description of the Non-Executive Director (NED) fee sacrifice equity plan is described below:

Purpose	The purpose of NED equity grant in CY2021 is to a) recognise the contributions of NEDs to the work leading up to the listing of Pepper Money on the ASX, and b) to give effect to their elections to exchange 25% of cash Board Fees for grants of equity in respect of CY2021 remuneration.
Opportunity	Based on the Offer Price of $2.89, the grants to be made to Non-Executive Directors in respect of CY2021 were as follows: • Mike Cutter: 39,792, based on a remuneration value of $115,000 to be granted • Akiko Jackson: 39,792, based on a remuneration value of $115,000 to be granted • Justine Turnbull: 39,792, based on a remuneration value of $115,000 to be granted • Rob Verlander: 39,792, based on a remuneration value of $115,000 to be granted

Participant	Number of Rights granted following completion of IPO
Mike Cutter (NED)	39,792
Akiko Jackson (NED)	39,792
Justine Turnbull (NED)	39,792
Rob Verlander (NED)	39,792

Instrument	The CY2021 NED Equity Plan grant is to be in the form of Restricted Rights.
Price and Exercise Price	The Price is nil, because it forms part of the remuneration of the Participant, however grants are generally based on an agreement to forego cash Board Fees. The Exercise Price is nil.
Vesting Conditions, Exercise Restrictions	In order to ensure NED independence is not compromised, and to recognise that the instruments are an alternative to cash remuneration, the Rights are not subject to any vesting conditions. Rights may not be exercised within 90 days of the Grant Date.
Settlement	Settlement of exercised Restricted Rights may be in Shares or Restricted Shares, via market purchase or new issue, directly transferred to the Participant, or via an Employee Share Trust, at the Board's discretion. It is generally expected that exercised Rights will be settled in Restricted Shares.
Specified Disposal Restriction	Rights may not be disposed of at any time other than by force of law. A Specified Disposal Restriction applies to CY2021 grants, such that Restricted Shares may not be disposed of while the Participant holds office with the Group.
Term and Lapse	The Term of the Rights 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.
Corporate Actions	Because the Rights can be converted into Restricted Shares at an early stage, only the expectation of delisting impacts the Rights, in which case Exercise Restrictions and Specified Disposal Restrictions are released.

3.8. Non-KMP Executive Remuneration

For direct reports to the CEO who are not classified as KMP, the Board has determined that the same remuneration policies, principles, processes and structures will apply, as applies to KMP. This is intended to ensure that the Executive team is consistently aligned, and 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.

4. The link between performance and reward in CY2021

The Board views the outcomes of remuneration for CY2021 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, in addition to the successful completion of the IPO and listing process.

4.1. CY2021 STVR outcomes

The STVR plan is designed to reward executives for the 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:

Table 7 STVR outcomes for the CEO

	Metric/Measure	Weighting	Threshold Outcome	Target Outcome	Stretch Outcome	Perfor-mance	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%	$102.6	$120.7	$127.5	$141.9	▼150% Threshold 50% / Target 100% / Stretch 150%	45%
	Total Assets Under Management ($bn)							
	Total Assets Under Management reflects AUM from lending and servicing as at 31 December 2021 (closing).	30%	$14.3	$16.8	$17.6	$17.0	▼111% Threshold 50% / Target 100% / Stretch 150%	33%
Operational – 20%	**Strategic Objectives**							
	Delivery of successful IPO	20%	Deliver IPO with < 10 x multiple	Deliver IPO with 10 x multiple	Deliver IPO with > 10 x multiple	Achieved IPO at 10.5	▼150% Threshold 50% / Target 100% / Stretch 150%	30%
Individual – 20%	**Individual Effectiveness (People and Risk)**							
	Risk & Compliance Measured by Issues & incidents reported within 5 days and On time completion of treatment plans.	10%	50 to 59	60 to 79	> = 80	Target	▼100% Threshold 50% / Target 100% / Stretch 150%	10%
	Leadership Effectiveness							
	Executive Engagement		50 to 59	60 to 79	> = 80	Stretch		
	Overall Company Engagement		50 to 59	60 to 79	> = 80	Stretch		
	Succession Planning - all key roles have identified successor/emergency	10%	90% to 94%	95% to 99%	100%	Below Threshold	▼110% Threshold 50% / Target 100% / Stretch 150%	11%
	Executive Attrition		> 16%	10% to 16%	< 10%	Stretch		
	Board 360							
	Total Weighting	**100%**					**Total % of Target % Payable**	**129%**

Table 8 STVR outcomes for the CFO

	Metric/Measure	Weighting	Threshold Outcome	Target Outcome	Stretch Outcome	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%	$102.6	$120.7	$127.5	$141.9	▼150% (Threshold 50%, Target 100%, Stretch 150%)	30%
	Total Assets Under Management ($bn)							
	Total Assets Under Management reflects AUM from lending and servicing as at 31 December 2021 (closing).	20%	$14.3	$16.8	$17.6	$17.0	▼111% (Threshold 50%, Target 100%, Stretch 150%)	22%
Operational - 40%	**Strategic Objectives**							
	Delivery of successful IPO	20%	Deliver IPO with < 10 x multiple	Deliver IPO with 10 x multiple	Deliver IPO with > 10 x multiple	Achieved IPO at 10.5	▼150% (Threshold 50%, Target 100%, Stretch 150%)	30%
	Effective, accurate and timely financial controls and reporting including the successful transaction of financial statutory reporting to ASX requirements	10%	Did not meet all objectives	Met objectives	Exceeded objectives	Exceeded objectives	▼150% (Threshold 50%, Target 100%, Stretch 150%)	15%
	Net Leverage Ratio	10%	NLR ≥ 2.00x	2.00x < NRL ≤ 1.50x	NLR ≤ 1.5x	NLR <0.47	▼150% (Threshold 50%, Target 100%, Stretch 150%)	15%
Individual - 20%	**Individual Effectiveness (People and Risk)**							
	Employee Engagement Score	5%	50% - 59%	60% - 79%	> =80%	71%	▼100% (Threshold 50%, Target 100%, Stretch 150%)	5%
	Operational and transformational efficiencies (CTI)	5%	43.0%	42.5%	42.0%	CTI = 43.3%	▼0% (Threshold 50%, Target 100%, Stretch 150%)	0%
	Risk and Compliance measured by Issues & incidents reported within 5 days and On time completion of treatment plans.	10%	< 95%	95%	> 95%	Risk and Compliance achieved at the target.	▼100% (Threshold 50%, Target 100%, Stretch 150%)	10%
	Total Weighting	**100%**					**Total % of Target % Payable**	**127%**

4.2. CY2021 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 CY2021 performance.

4.3. Achieved Total Remuneration Package for CY2021

The following outlines 'Achieved' (what became payable, awarded or vested in respect of CY2021 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 CY2021:

Table 9

			Fixed Package (incl Super)		Total STVR Awarded Following Completion of the Calendar Year*		Value of LTVR that Vested Following Completion of the Measurement Period/CY**		Total Remuneration Package (TRP)
Name	**Role(s)**	**Year**	**Amount**	**% of TRP**	**Amount**	**% of TRP**	**Amount**	**% of TRP**	
Mario Rehayem	Chief Executive Officer	2021	$1,034,825	53%	$930,927	47%	$0	0%	$1,965,752
Therese McGrath	Chief Financial Officer	2021	$621,712	66%	$316,682	34%	$0	0%	$938,394

* This is the value of the total STVR/bonus award calculated following the end of the Calendar Year.

** This is the grant value of the LTVR/Equity that vested after the end of the reporting period i.e. the number that vested multiplied by the Black-Scholes value at grant.

4.4. Use of Board Discretion

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

5. Statutory Tables and Supporting Disclosures

5.1. Executive KMP Statutory Remuneration for CY2021

The following table outlines the statutory remuneration of executive KMP:

Table 10

				Fixed Pay				
				Equity (as part of Fixed Pay)	Super	Other Benefits***	Total Fixed Pay	
Name	**Role(s)**	**Year**	**Salary**				**Amount**	**% of TRP**
Mario Rehayem	Chief Executive Officer	2021	$911,962		$21,856	$101,006	$1,034,825	35%
	Chief Executive Officer	2020						
Therese McGrath	Chief Financial Officer	2021	$551,172		$53,840	$16,700	$621,712	47%
	Chief Financial Officer	2020						

* Note that the STVR/bonus value reported in this table is the bonus that was paid during the reporting period, being the award earned during the previous period and up to the IPO. 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.

*** Other benefits include items such as car parking, car allowances, General Employee Share Schemes, FBT, insurance etc.

5.2. Non-Executive Director (NED) KMP Statutory Remuneration for CY2021

The total amount of fees paid to Non-Executive Directors in the year ended 31 December 2021 is within the aggregate amount set 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 ($, except where otherwise indicated):

Table 11

Name	Role(s)	Year	Board Fees
Michael Culhane*	Non-Executive Chair and Shareholder Representative	2021	$156,000
	Non-Executive Chair and Shareholder Representative	2020	
Des O'Shea	Non-Executive Director and Shareholder Representative	2021	$76,667
	Non-Executive Director and Shareholder Representative	2020	
Mike Cutter	Independent Non-Executive Director	2021	$82,920
	Independent Non-Executive Director	2020	
Akiko Jackson	Independent Non-Executive Director	2021	$76,601
	Independent Non-Executive Director	2020	
Justine Turnbull	Independent Non-Executive Director	2021	$82,920
	Independent Non-Executive Director	2020	
Rob Verlander	Independent Non-Executive Director	2021	$76,601
	Independent Non-Executive Director	2020	

* Note that Michael Culhane is remunerated as CEO by the Pepper Global Group. The total remuneration of $171,167 payable to him in 2021 was paid to the Pepper Global Group and treated as a recovery cost.

Variable Remuneration								Total for Year	Other Statutory Items	
Cash STVR*		Deferred STVR*		IPO Equity**		LTVR**		Total Remuneration Package (TRP)	Termination Benefits	Change in Accrued Leave
Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP			
$1,310,000	44%			$185,017	6%	$465,890	16%	$2,995,731		
$441,667	34%			$111,932	9%	$140,928	11%	$1,316,238		

Committee Fees	Superannuation	Other Benefits	Equity Grant Expense	Termination Benefits	Total
$15,167				$0	$171,167
					$0
$15,167				$0	$91,834
					$0
$5,909	$9,180		$97,888	$0	$195,897
					$0
$5,909	$8,029		$97,888	$0	$188,427
					$0
$5,909	$9,180		$97,888	$0	$195,897
					$0
$5,909	$8,029		$97,888	$0	$188,427
					$0

5.3. KMP equity interests and changes during CY2021

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

Table 12

		Number Held at Open CY2021	Granted CY2021		Forfeited during CY2021	Vested and Exercisable during CY2021
Name	**Instrument**	**Number**	**Date Granted**	**Number**	**Number**	**Number**
Mario Rehayem	Shares	–				
	Vested Rights	–				
	Unvested Rights	–	24/09/2021	837,035		
	Vested SARs	–				
	Unvested SARs	–	24/09/2021	771,631		
Therese McGrath	Shares	–				
	Vested Rights	–				
	Unvested Rights	–	24/09/2021	334,004		
	Vested SARs	–				
	Unvested SARs	–	24/09/2021	466,824		
Totals		**-**		**2,409,494**		

* %of holding policy met is calculated by reference to the number interests in full shares (including Vested but unexercised Rights with nil exercise price) held at the end of the financial year, multiplied by the closing share price for the year. CEO and CFO are required to accumulate and maintain significant holdings of 100% and 50% of their annual fixed pay respectively in a maximum of three years.

Vested and Not Exercisable during CY2021	CY2021 Exercised (or Shares received from Exercising)	Net Value at Exercise (after Exercise Price)	CY2021 Purchased/ Other	CY2021 Sold	Number held at Close 2021	% of Holding Policy Met*
Number	Number	$	Number	Number	Number	Percent
			2,430,487		2,430,487	
					837,035	508%
					771,631	
			101,704		101,704	
					334,004	35%
					466,824	
			2,532,191		**4,941,685**	**n/a**

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

Table 13

		Number Held at Open CY2021	Granted CY2021		Forfeited during CY2021	Vested and Exercisable during CY2021
Name	**Instrument**	**Number**	**Date Granted**	**Number**	**Number**	**Number**
Michael Culhane**	Unrestricted Shares	–				
	Restricted Shares	–				
	Restricted Rights	–				
Des O'Shea	Unrestricted Shares	–	27/05/2021	41,523		
	Restricted Shares	–				
	Restricted Rights	–				
Mike Cutter	Unrestricted Shares	–	27/05/2021	17,302		
	Restricted Shares	–				
	Restricted Rights	–	11/10/2021	39,792		
Akiko Jackson	Unrestricted Shares	–	27/05/2021	34,603		
	Restricted Shares	–				
	Restricted Rights	–	11/10/2021	39,792		
Justine Turnbull	Unrestricted Shares	–	10/06/2021	8,651		
	Restricted Shares	–				
	Restricted Rights	–	11/10/2021	39,792		
Rob Verlander	Unrestricted Shares	–	27/05/2021	51,905		
	Restricted Shares	–				
	Restricted Rights	–	11/10/2021	39,792		
Totals		**–**		**313,152**		

* % of holding policy met is calculated by reference to the number interests in full shares (including Vested but unexercised Rights with nil exercise price) held at the end of the financial year, multiplied by the closing share price for the year. NEDs are required to accumulate and maintain significant holdings of no less than one year's Board Fees in a maximum of three years.

** Michael Culhane holds 7,820,624 shares in Pepper Global TopCo Limited (TopCo). TopCo is a related body corporate of Pepper Money and holds a relevant interest in 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 CY2021	CY2021 Exercised (or Shares received from Exercising)	Net Value at Exercise (after Exercise Price)	CY2021 Purchased/ Other	CY2021 Sold	Number held at Close 2021	% of Holding Policy Met*
Number	Number	$	Number	Number	Number	Percent
					–	
					–	–
					–	
					41,523	
					–	78%
					–	
					17,302	
					–	107%
					39,792	
					34,603	
					–	140%
					39,792	
			1,349		10,000	
					–	94%
					39,792	
					51,905	
					–	172%
					39,792	
			1,349		**313,152**	**n/a**

The following outlines the accounting values and potential future costs of equity remuneration granted during CY2021 for executive KMP:

Table 14

2021 Equity Grants									
Name	**Tranche**	**Grant Type**	**Number**	**Vesting Conditions**	**Grant Date**	**Fair Value Each at Grant Date**	**Total Fair Value at Grant**	**Value Expensed in CY2021**	**Max Value to be Expensed in Future Years**
	CY21 LTVR Performance Rights	LTVR	284,948	iTSR	24/9/21	0.93	265,002	132,501	132,501
	CY21 LTVR Performance Rights	LTVR	284,948	ROE	24/9/21	2.34	666,778	333,389	333,389
Mario Rehayem	IPO Service Rights	IPO	267,139	Service	24/9/21	1.03	275,153	90,801	184,353
	IPO Service SARs	IPO	771,631	Service	24/9/21	0.37	285,503	94,216	191,287
	CY21 Deferred STVR Restricted Rights*	STVR	–	Exercise Restriction			–	325,824	–
	CY21 LTVR Performance Rights	LTVR	86,195	iTSR	24/9/21	0.93	80,161	40,081	40,081
	CY21 LTVR Performance Rights	LTVR	86,194	ROE	24/9/21	2.34	201,694	100,847	100,847
Therese McGrath	IPO Service Rights	IPO	161,615	Service	24/9/21	1.03	166,463	54,933	111,530
	IPO Service SARs	IPO	466,824	Service	24/9/21	0.37	172,725	56,999	115,726
	CY21 Deferred STVR Restricted Rights*	STVR	–	Exercise Restriction				110,839	–
TOTALS			**2,409,494**				**2,113,480**	**1,340,429**	**1,209,713**

* CY2021 Deferred STVR Restricted Rights are estimated to be granted in March 2022. The number of restricted rights will be determined based on the deferral portion of CY2021 STVR outcome and a 10 trading day VWAP following the release of CY2021 financial results on 24 February 2022.

Note: The minimum value to be expensed in future years for each of the above grants made in CY2021 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.

The following outlines the accounting values and potential future costs of equity remuneration granted during CY2021 for Non-executive KMP:

Table 15

2021 Equity Grants									
Name	**Tranche**	**Grant Type**	**Number**	**Vesting Condi-tions**	**Grant Date**	**Fair Value Each At Grant Date**	**Total Fair Value at Grant**	**Value Expensed in CY2021**	**Max Value to be Expensed in Future Years**
Michael Culhane	NED Equity Plan Rights	Board Fee		None					
Des O'Shea	NED Equity Plan Rights	Board Fee		None					
Mike Cutter	NED Equity Plan Rights	Board Fee	39,792	None	11/10/21	2.46	97,888	97,888	–
Akiko Jackson	NED Equity Plan Rights	Board Fee	39,792	None	11/10/21	2.46	97,888	97,888	–
Justine Turnbull	NED Equity Plan Rights	Board Fee	39,792	None	11/10/21	2.46	97,888	97,888	–
Rob Verlander	NED Equity Plan Rights	Board Fee	39,792	None	11/10/21	2.46	97,888	97,888	–
Totals			**159,168**				**391,553**	**391,553**	**–**

Note: The minimum value to be expensed in future years for each of the above grant made in CY2021 is nil. A reversal of previous expense resulting in a negative expense in the future may occur in the event of a NED departure or failure to meet non market-based conditions.

5.4. KMP Service Agreements

5.4.1 Executive KMP Service Agreements

The following outlines current Executive KMP service agreements:

Table 16

				Period of Notice		
Name	**Position Held at Close of CY2021**	**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.

5.4.2 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.

5.5. Other Statutory Disclosures

5.5.1 Loans to KMP and their related parties

During the calendar year and to the date of this report, Pepper Money made the Management Loans of $3,132,712 to Mario Rehayem.

The Management Loans are limited recourse, non-interest bearing.

5.5.2 Other transactions with KMP

There were no other disclosable transactions with KMP for CY2021.

5.5.3 External Remuneration Consultants

During CY2021 the Board engaged approved External Remuneration Consultants to provide KMP remuneration advice (including remuneration recommendations) and other services as outlined below:

Godfrey Remuneration Group Pty Ltd (GRG):

(a) Assistance with the preparation of documentation for IPO lodgement – $43,670 (incl. GST)

(b) Assistance with remuneration governance framework development – $23,100 (incl. GST)

(c) Amendments to existing STVR and LTVR documentation and delivering a workshop for executives on the variable remuneration framework – $13,750 (incl. GST)

(d) Preparation of Pepper Money's first Remuneration Report – $19,251 (incl. GST)

Pepper Money Limited

(formerly Pepper Group Pty Limited)

Consolidated Financial Statements

for the year ended 31 December 2021

ASX: PPM

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Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

Tel: +61 (0) 2 9322 7000
www.deloitte.com.au

24 February 2022

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 2021, 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

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

	Notes	31 December 2021 $M	31 December 2020 $M
Interest income	3(A)	**690.3**	705.9
Interest expense[1]	3(A)	**(323.7)**	(353.7)
Net interest income from continuing operations[1]	3(A)	**366.6**	352.2
Lending fee income	3(B)	**59.9**	51.3
Lending expense	3(B)	**(47.2)**	(44.8)
Whole loan sales gain		**9.5**	9.6
Loan losses	4(B)	**(24.6)**	(56.7)
Servicing fees and other income	3(B)	**11.6**	7.3
Total operating income from continuing operations		**375.8**	318.9
Employee benefits expense	3(D)	**(98.3)**	(81.7)
Marketing expense	3(D)	**(10.8)**	(10.4)
Technology expense	3(D)	**(19.9)**	(19.9)
General and admin expense	3(D)	**(25.6)**	(21.3)
Fair value gains or losses on financial assets		**0.2**	(2.9)
Impairment losses on financial assets		**(0.3)**	(2.6)
Depreciation and amortisation expense	8(A), 8(B)	**(24.5)**	(24.4)
Corporate interest expense	3(D)	**(10.3)**	(14.2)
Operating expenses from continuing operations		**(189.5)**	(177.4)
Profit before income tax from continuing operations		**186.3**	141.5
Income tax expense	3(E)	**(55.6)**	(42.1)
Net profit after income tax from continuing operations		**130.7**	99.4
Profit/(loss) from discontinued operations	16(B)	**182.2**	(129.4)
Net profit/(loss) after income tax		**312.9**	(30.0)
Equity holders of Pepper Money Limited		**312.9**	(29.6)
Non-controlling interests		**-**	(0.4)

	Notes	Cents per share	Cents per share
Earnings per share (EPS)	3(F)		
Basic EPS from continuing operations		**36.38**	39.46
Basic EPS from discontinued operations		**50.71**	(51.36)
Diluted EPS from continuing operations		**35.93**	39.46
Diluted EPS from discontinued operations		**50.09**	(51.36)

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

For the year ended 31 December 2021

	31 December 2021 $M	31 December 2020 $M
Net profit after tax from continuing operations	**130.7**	99.4
Net profit/(loss) after tax from discontinued operations	**182.2**	(129.4)
Net profit/(loss) after tax	**312.9**	(30.0)
Other comprehensive income/(expense) that may be recycled to profit or loss		
Currency translation movement	**12.3**	(27.6)
Cash flow hedge reserve movement	**69.7**	(20.2)
Other reserve movement	**3.8**	(0.1)
Income tax relating to items that may be recycled to profit or loss	**(19.5)**	0.9
Total other comprehensive income/(expense) that may be recycled to profit or loss	**66.3**	(47.0)
Total comprehensive income/(expense) for the period	**379.2**	(77.0)
Total comprehensive income/(expense) attributable to:		
Owners of Pepper Money Limited	**379.2**	(76.6)
Non-controlling interests	**–**	(0.4)

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

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	31 December 2021 $M	31 December 2020 $M
Assets			
Cash and cash equivalents	4(A)	**1,309.2**	885.5
Receivables		**9.4**	5.4
Loans and advances	4(B)	**15,819.8**	13,310.8
Derivative financial assets	6(B)(h)	**23.7**	1.1
Other financial assets	4(C)	**23.0**	19.6
Other assets		**7.5**	4.0
Deferred tax assets	3(E)	**37.5**	52.3
Property, plant and equipment	8(A)	**6.6**	13.6
Intangible assets	8(B)	**31.5**	38.9
Assets held for sale or distribution	16(D)	**–**	8,769.2
Total assets		**17,268.2**	23,100.4
Liabilities			
Trade payables		**11.2**	15.2
Current tax		**39.2**	37.8
Provisions	5(A)	**26.8**	18.8
Borrowings	5(B)	**16,517.2**	13,797.0
Derivative liabilities	6(B)(h)	**17.5**	86.7
Other liabilities	5(C)	**19.9**	21.6
Liabilities directly associated with assets held for sale or distribution	16(D)	**–**	8,388.4
Total liabilities		**16,631.8**	22,365.5
Total net assets		**636.4**	734.9
Equity			
Issued capital	7(A)	**729.3**	601.8
Other equity	7(B)	**–**	(19.5)
Other reserves	7(B)	**12.4**	(45.6)
Retained earnings		**(105.3)**	197.2
Total equity attributable to owners of Pepper Money Limited		**636.4**	733.9
Non-controlling interests		**–**	1.0
Total equity		**636.4**	734.9

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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 2020									
Opening balance	601.8	(19.4)	29.9	(28.6)	0.1	226.1	809.9	1.1	811.0
Loss for the period	–	–	–	–	–	(29.6)	(29.6)	(0.4)	(30.0)
Currency translation movements	–	–	(31.8)	–	–	–	(31.8)	–	(31.8)
Cash flow hedge movements	–	–	–	(15.1)	–	–	(15.1)	–	(15.1)
Retirement benefit remeasurements	–	(0.1)	–	–	–	–	(0.1)	–	(0.1)
Total comprehensive income	–	(0.1)	(31.8)	(15.1)	–	(29.6)	(76.6)	(0.4)	(77.0)
Dividends paid	–	–	–	–	–	–	–	–	–
Capital contribution	–	–	–	–	–	1.6	1.6	0.3	1.9
Other equity movements	–	–	–	–	(0.1)	(0.9)	(1.0)	–	(1.0)
Balance as at 31 December 2020	601.8	(19.5)	(1.9)	(43.7)	–	197.2	733.9	1.0	734.9
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 income	**–**	**–**	**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**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	31 December 2021 $M	31 December 2020 $M
Cash flows from operating activities			
Interest received		**654.9**	709.4
Interest paid		**(324.4)**	(365.3)
Receipts from loan fees and other income		**68.9**	56.3
Payments of net loans to borrowers		**(2,859.4)**	(640.2)
Payments to suppliers and employees		**(202.4)**	(253.0)
Income taxes (paid)/received		**(55.8)**	6.4
Proceeds from sale of loan portfolios		**388.4**	420.3
Operating activities from discontinued operations	16(C)	**(660.7)**	(1,280.5)
Net cash (outflow) from operating activities	4(A)	**(2,990.5)**	(1,346.6)
Cash flows from investing activities			
Payment for intangibles and other assets		**(10.1)**	(11.9)
Net payments for investments		**(4.0)**	(3.9)
Amounts (paid to)/received from related parties		**–**	(0.4)
Intercompany investing transactions		**–**	(20.2)
Investing activities from discontinued operations	16(C)	**(32.8)**	(58.6)
Net cash (outflow)/inflow from disposal of businesses	16(C)	**(219.5)**	46.3
Net cash (outflow) from investing activities		**(266.4)**	(48.7)
Cash flows from financing activities			
Proceeds from borrowings		**12,941.2**	8,818.5
Repayment of borrowings		**(10,653.5)**	(8,547.5)
Repayment of lease liability		**(8.3)**	(8.4)
Proceeds from issuance/(return) of capital		**488.2**	–
Financing activities from discontinued operations	16(C)	**913.0**	1,292.9
Net cash inflow from financing activities		**3,680.6**	1,555.5
Net increase in cash and cash equivalents		**423.7**	160.2
Cash and cash equivalents at the beginning of the financial period		**885.5**	725.3
Cash and cash equivalents at end of year		**1,309.2**	885.5

The above consolidated statement of cash flows includes both continuing and discontinued operations. Amounts related to discontinued operations are disclosed in Note 16(C).

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

1. General Information

(A) Reporting entity

These consolidated financial statements are for the consolidated Group ('the Group') consisting of Pepper Money Limited ('Pepper Money' or 'the Company') (formerly Pepper Group Pty Limited) and its controlled entities and were approved and authorised for issue in accordance with a resolution of the Directors on 24 February 2022.

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 going concern basis, except for financial instruments and investments that have been measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets.

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

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

(D) Corporate restructure

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

- Pepper Global TopCo Limited ('TopCo') was established as the new ultimate parent company of Pepper Money Limited.
- Topco owns 100% of the shares in Pepper Global Midco Limited ('Midco') which in turn owns 100% of the shares in Pepper Group ANZ Holdco Limited ('Holdco').
- Holdco became the sole pre-IPO shareholder of Pepper Money Limited (and its controlled entities).
- Assets and liabilities that did not pertain to the ongoing business activities and operations in Australia and New Zealand or its shared service operations in the Philippines were sold into separate holdings outside of the Group. These represent discontinued operations and are presented in more detail in Note 16.

(E) Critical estimates, judgements and errors

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. Refer to Note 4(B) for the accounting policy on ECLs.

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. Consistent with industry guidance, the Group does not consider customer support payment deferrals (as part of COVID-19 support packages) to be a significant increase in credit risk trigger.
Probability of default ('PD')	An estimate of the likelihood of default over a given time horizon (either 12 months or life-time. 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	Captures estimated impacts of scenario weighted macro-economic assumptions. The Group uses macro-economic factors including unemployment rates, target cash rate and the House Price Index analysed across four scenarios - base case, uplift, downturn and severe downturn. The Group's analysis is informed by a combination of publicly available economic forecasts in respect of the Australian and New Zealand economies, combined with Group portfolio information, judgements and analysis.
Post-model overlay adjustments	The Group applies adjustments to the modelled ECL result to ensure that the provision balance is sufficiently responsive to changes in the credit risk profile of the loans which are not modelled in the above assumptions. This includes adjustments for: • Targeted recalibration of models; and • Uncertainties relating to potential impacts of COVID-19

(b) Share-based payments valuation

In determining the share-based payments schemes for the year, the Group use models which require the use of various assumptions and estimates involving Management judgement. Refer to Note 9 for further information.

(c) Fair value of equity investments

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

Management perform valuations 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 combination

The consolidated financial statements comprise the financial statements of the Group. Refer to Note 10 for the list of controlled entities (subsidiaries) at 31 December 2021.

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 2021, 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 has been prepared on the same basis as the consolidated financial statements.

Refer to Note 11 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.

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

2. 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 2014-10 *Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128, AASB 2017-5 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*
- 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 2020-3 *Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments*
- 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*

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 2021, but do not have an impact on the consolidated financial statements of the Group.

Interpretations Committee guidance on Software-as-a-Service (SaaS) costs

During the year, the Group revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. Prior to the IFRIC agenda decision, the Group's accounting policy has been to capitalise all costs related to SaaS arrangements in the statement of financial position. The adoption of the above agenda decision has led to a reclassification of these intangible assets to recognition as an expense in the statement of profit or loss.

SaaS arrangements are service contracts which provide the Group with the right to receive access to the cloud provider's application software, rather than a license over the intellectual property i.e. control over the software code itself. Configuration and customisation costs incurred in implementing SaaS arrangements, and the ongoing fees to obtain access to the cloud provider's application software, should be expensed when the services are received, unless the criteria for recognising a separate asset are met. Refer to Note 8(B) for further detail.

In applying the Group's accounting policy, the directors made the following key judgements that may have the most significant effect on the amounts recognised in the financial statements:

Capitalisation of configuration and customisation costs in SaaS arrangements

Part of the customisation and configuration activities undertaken in implementing SaaS arrangements may entail the development of software code that enhances or modifies, or creates additional capability to the existing on-premise software to enable it to connect with the cloud-based software applications (referred to as bridging modules or APIs). Judgement was applied in determining whether the additional code meets the definition of and recognition criteria for an intangible asset in AASB 138 Intangible Assets. During the year, the Group did not recognise any intangible assets in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

Determination whether configuration and customisation services are distinct from the SaaS access

Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, the directors applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e. upfront), or over the SaaS contract term.

Specifically, where the configuration and customisation activities significantly modify or customise the cloud software, these activities will not be distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customisation and modification of the cloud-based software that would be deemed significant. During the year, the Company recognised nil prepayments in respect of customisation and configuration activities undertaken in implementing SaaS arrangements which are considered not to be distinct from the access to the SaaS access over the contract term.

IBOR Reform and AASB 9 Financial Instruments Relief Amendments

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

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

Fallback provisions

Of the USD denominated debt agreements, Pepper Residential Securities ('PRS') Trust numbers 21 to 24 inclusive do not have precise fallback provisions that specify the alternative benchmark rate to be used in the event that USD LIBOR is no longer available, or has ceased to become representative. Fallback provisions for these agreements will need to be bilaterally negotiated with bondholders - the target date for completion of these negotiations is during calendar year 2022. PRS25 has specific fallback provisions which reference the Secured Overnight Financing Rate (SOFR) and will not require further negotiation or amendments.

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

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

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

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

Derivative financial instrument prior to transition	Maturing in	Nominal Currency (USD M)	Total Nominal (AUD M)[1]	Hedge Accounting	Transition Progress
Receive USD LIBOR/ Pay AUD BBSW Cross Currency Swap	2023	59.5	81.7	USD floating rate debt of same notional amortising profile and maturity of the swap	Linked to underlying hedged item
Receive USD LIBOR/ Pay AUD BBSW Cross Currency Swap	2024	38.2	53.6	USD floating rate debt of same notional amortising profile and maturity of the swap	Linked to underlying hedged item
Receive USD LIBOR/ Pay AUD BBSW Cross Currency Swap	2024	35.8	51.6	USD floating rate debt of same notional amortising profile and maturity of the swap	Linked to underlying hedged item
Receive USD LIBOR/ Pay AUD BBSW Cross Currency Swap	2024	57.2	83.9	USD floating rate debt of same notional amortising profile and maturity of the swap	Linked to underlying hedged item

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

Key risks

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

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

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

- **Liquidity risk** – there are fundamental differences between USD LIBOR and SOFR, the preferred alternative benchmark. USD LIBOR is a forward-looking term-rate published for a relevant period (e.g. 1-month), and includes an embedded credit and liquidity spread. SOFR is an overnight risk-free benchmark index published at the end of the overnight period, with no embedded credit or term liquidity spread, which will be averaged over the relevant period to determine the floating interest rate. The uncertainty regarding floating interest rate payments under the alternative benchmark will require additional liquidity management – this may be mitigated by the use of term SOFR benchmarks should these become available and market accepted at the time of the transition.
- **Accounting** – if the transition to the alternative benchmark is finalised in such a way as to not permit continuation of hedge accounting in existing hedge relationships, increased volatility in profit or loss and hedge ineffectiveness could result. The Group is aiming to agree changes to the contracts that would allow AASB 9 reliefs to apply, and is not intending to close-out or novate derivatives, or enter into new on market derivatives where derivatives have been designated in hedge relationships.
- **Litigation risk** – if no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group intends to work closely with all counterparties to avoid this from occurring.
- **Operational risk** – the Group is seeking to implement a Treasury & Banking System with hedge accounting capabilities that meet the requirements for transitioning hedge relationships to alternative benchmarks.

Progress towards managing the transition to alternative benchmark rates

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

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

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

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

3. Financial performance

(A) Interest Income and Interest expense

	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Interest income:		
Interest from customers	**687.9**	701.0
Bank interest	**2.4**	4.9
Total interest income	**690.3**	705.9
Interest expense:		
Interest expense	**(323.7)**	(353.7)
Net interest income	**366.6**	352.2

Loans and advances are measured on an amortised cost basis on the balance sheet. Revenue is recognised over the life of the loan, taking into account all income and expenditure directly attributable to the loan. The rate at which revenue is recognised is referred to as the effective interest rate ('EIR') method and is equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan. The revenue stream includes interest revenue, mortgage risk fees received at loan settlement, loan premium revenue and early termination interest adjustments payable upon early redemption of a loan. Acquisition costs such as upfront broker commissions paid are also spread across the expected life of the loan in interest income. Interest 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 measured on an EIR basis and includes costs directly associated with the bringing to account the funding facilities used to fund the Group's lending assets. These are transaction costs incurred by the Group in facilitating the issue of debt securities. These costs are amortised to the combined income statement over the average expected life of the debt securities using the effective interest method. On a consolidated basis, these costs are included as part of the amortised cost of the debt securities.

(B) Non-interest income and expenses

Lending fee income

	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Settlement fees	**28.3**	20.7
Post-settlement fees	**31.6**	30.6
Total lending fee income	**59.9**	51.3

Lending fee income include fees other than those that are an integral part of EIR (see Note 3(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.

Lending expense

	Year ended 31 December 2021 $M	31 December 2020 $M
Trail commission expense	**(22.9)**	(21.8)
Trustee and other SPV expenses	**(2.8)**	(3.1)
Enforcement costs	**(5.5)**	(4.9)
GST input tax loss	**(4.3)**	(3.4)
Origination expense	**(7.5)**	(6.2)
Other lending expense	**(4.2)**	(5.4)
Total lending expense	**(47.2)**	(44.8)

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 2021 $M	31 December 2020 $M
Loan and other servicing income	**5.7**	4.0
Other income	**5.9**	3.3
Total servicing fees and other income	**11.6**	7.3

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.

(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 3(G)).

	Mortgages		Asset Finance		Loans and Other Servicing		Total	
	FY21 $M	FY20 $M	FY21 $M	FY20 $M	FY21 $M	FY20 $M	FY21 $M	FY20 $M
Revenue Type:								
Lending fee income	**18.4**	16.6	**41.4**	34.7	**0.1**	–	**59.9**	51.3
Whole loan sales income	**9.5**	9.6	**–**	–	**–**	–	**9.5**	9.6
Servicing fees and other income	**1.6**	1.8	**1.2**	1.2	**8.8**	4.3	**11.6**	7.3
Total revenue from contracts with customers	**29.5**	28.0	**42.6**	35.9	**8.9**	4.3	**81.0**	68.2
Timing of revenue recognition:								
Service transferred at a point in time	**29.5**	28.0	**42.6**	35.9	**3.2**	0.3	**75.3**	64.2
Services transferred over time	**–**	–	**–**	–	**5.7**	4.0	**5.7**	4.0
Total revenue from contracts with customers	**29.5**	28.0	**42.6**	35.9	**8.9**	4.3	**81.0**	68.2
Lending expense	**(40.1)**	(38.1)	**(7.2)**	(7.0)	**0.1**	0.3	**(47.2)**	(44.8)
Other operating income as reported in Note 3(G) Segment reporting	**(10.6)**	(10.1)	**35.4**	28.9	**9.0**	4.6	**33.8**	23.4

(D) Expenses

Employee benefits expense

	Year ended	
	31 December 2021 $M	31 December 2020 $M
Salaries and wages	**(78.3)**	(73.8)
Employee incentive and share-based payments	**(14.8)**	(5.3)
Other personnel expenses	**(5.2)**	(2.6)
Total employee benefits expense	**(98.3)**	(81.7)

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 9 for detail on the share-based payments schemes.

Marketing expenses

	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Sponsorship and advertising expenses	**(8.1)**	(8.0)
Digital and other marketing expenses	**(2.7)**	(2.4)
Total marketing expenses	**(10.8)**	(10.4)

Marketing expenses are expensed when incurred.

Technology expenses

	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Software licence fees	**(7.2)**	(8.1)
IT hardware, maintenance and support	**(12.7)**	(11.8)
Total technology expenses	**(19.9)**	(19.9)

Technology expenses are expensed when incurred.

General and admin expense

	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Related party charges	**(4.6)**	(2.8)
Postage, printing and office expenses	**(1.6)**	(1.3)
Professional expenses	**(12.3)**	(11.3)
Travel and entertainment expenses	**(0.9)**	(0.9)
Financing fees and expenses	**(0.5)**	(0.7)
Insurance expenses	**(0.6)**	–
Occupancy expense	**(1.0)**	(1.7)
ASX listing fee	**(0.7)**	–
Other expenses	**(3.4)**	(2.6)
Total general and admin expense	**(25.6)**	(21.3)

General and administration expenses are expensed when incurred.

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

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

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

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

Corporate interest expense

	Year ended 31 December 2021 $M	31 December 2020 $M
Corporate debt facilities	**(9.3)**	(12.8)
Lease liability interest	**(1.0)**	(1.4)
Total corporate interest expense	**(10.3)**	(14.2)

Corporate interest expenses relate to interest paid on corporate debt facilities measured under the EIR method. Refer to Note 5(B) for further disclosures.

Lease liability interest is recognised on the Group's lease liability. Refer to Note 5(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.

	Year ended	
(i) Income tax recognised in profit or loss	**31 December 2021 $M**	**31 December 2020 $M**
Current tax		
Current tax expense in respect to the current year	**59.5**	55.5
Adjustments recognised in the current year in relation to the current tax of prior years	**(2.2)**	4.8
Total current tax expense	**57.3**	60.3
Deferred tax		
Deferred tax (benefit)/expense recognised in the current year	**(3.5)**	(12.8)
Adjustments recognised in the current year in relation to the deferred tax of prior years	**1.8**	(5.4)
Total deferred tax (benefit)	**(1.7)**	(18.2)
Total income tax expense recognised in the current year relating to continuing operations	***(55.6)***	*(42.1)*
Total income tax expense recognised in the current year relating to discontinued operations	**2.6**	15.1
Total income tax expense recognised in the current year	**(53.0)**	(27.0)

	Year ended	
(ii) The income tax expense for the year can be reconciled to the accounting profit as follows:	**31 December 2021 $M**	**31 December 2020 $M**
Profit from continuing operations before income tax expense	**186.3**	141.5
Tax at the Australian tax rate of 30.0% (2020 - 30.0%)	**55.9**	42.4
Effect of different tax rates of operations in foreign jurisdictions	**(0.1)**	(0.1)
Effect of expenses that are not deductible in determining taxable profit	**0.1**	0.2
Previously unrecognised tax losses used to reduce deferred tax expense	**-**	(0.5)
Other	**-**	0.1
	55.9	42.1
Adjustments recognised in current year in relation to income tax of prior years	**(0.3)**	-
Income tax expense	**55.6**	42.1

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 2021 balances below represent continuing operations:

(iii) Deferred tax balance movements	As at 31 December 2021 $M	As at 31 December 2020 $M
Continuing operations	**37.5**	52.3
Discontinued operations	**–**	17.6
Closing balance at the end of year	**37.5**	69.9
Opening balance	**52.3**	37.6
Adjustment for prior periods	**(1.8)**	–
Adjusted opening balance	**50.5**	37.6
Current year tax recognised in the statement of profit or loss	**3.5**	12.8
Current year tax recognised in other comprehensive income	**(13.5)**	3.8
Others	**(3.0)**	(1.9)
Closing balance	**37.5**	52.3

(iv) Deferred tax balances	As at 31 December 2021 $M	As at 31 December 2020 $M
Breakdown of closing balance as follows:		
Employee expenses	**7.0**	4.7
Provisions	**1.3**	0.8
Deferred expenses	**(3.7)**	(2.6)
Loan loss provisions and other doubtful debts	**33.1**	32.5
Other financial assets	**(0.8)**	0.5
Derivatives	**(3.6)**	13.8
Recognition of tax assets relating to tax losses	**2.7**	0.9
Other	**1.5**	1.7
	37.5	52.3
Deferred tax balances are presented in the balance sheet as follows:		
Deferred tax assets	**37.5**	52.3

A deferred tax asset has not been recognised for $2.2m of unused capital losses carried forward in Australia (2020: $2.4m).

(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 2021 $M	31 December 2020 $M
Profit from continuing operations attributable to ordinary equity holders of the Group	**130.7**	99.4
Weighted average number of ordinary shares (WANOS) used in the calculation of basic EPS (millions of shares)	**359.4**	251.9
Dilutive effect of share options (millions of shares)	**4.4**	–
WANOS used in the calculation of diluted shares (millions of shares)	**363.8**	251.9
Profit/(loss) from discontinued operations attributable to ordinary equity holders of the Group	**182.2**	(129.4)
WANOS used in the calculation of basic EPS (millions of shares)	**359.4**	251.9
Dilutive effect of share options (millions of shares)	**4.4**	–
WANOS used in the calculation of diluted shares (millions of shares)	**363.8**	251.9

Calculation of WANOS

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).

Year ended 31 December 2020 (251,929,000)

The number of ordinary shares on issue 251,929,000 multiplied by the ratio of days outstanding (366/366).

Calculation of dilutive effect

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 10(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 2021 Cents	Year ended 31 December 2020 Cents
Basic EPS from continuing operations	**36.38**	39.46
Basic EPS from discontinued operations	**50.71**	(51.36)
Total basic EPS attributable to the ordinary equity holders of the Group	**87.09**	(11.90)

(d) Diluted earnings per share

	Year ended 31 December 2021 Cents	Year ended 31 December 2020 Cents
Diluted EPS from continuing operations	**35.93**	39.46
Diluted EPS from discontinued operations	**50.09**	(51.36)
Total diluted EPS attributable to the ordinary equity holders of the Group	**86.02**	(11.90)

(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 has identified the following operating and reportable segments:

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

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

(a) Segment income statement

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

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

	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
Year ended 31 December 2021					
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 before discontinued operations	**256.1**	**110.8**	**8.8**	**(245.0)**	**130.7**
Year ended 31 December 2020					
Interest income	539.1	166.8	–	–	705.9
Interest expense	(268.6)	(85.1)	–	–	(353.7)
Net interest income	270.5	81.7	–	–	352.2
Other operating income	(10.1)	28.9	4.6	–	23.4
Loan losses	(21.2)	(35.0)	(0.5)	–	(56.7)
Total segment reporting income	239.2	75.6	4.1	–	318.9
Corporate costs	–	–	–	(138.8)	(138.8)
Depreciation and amortisation	–	–	–	(24.4)	(24.4)
Corporate interest expense	–	–	–	(14.2)	(14.2)
Profit before income tax	239.2	75.6	4.1	(177.4)	141.5
Income tax expense	–	–	–	(42.1)	(42.1)
Net profit after tax before discontinued operations	239.2	75.6	4.1	(219.5)	99.4

(b) Segment balance sheet

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

	Mortgages $M	Asset Finance $M	Loan and Other Servicing $M	Corporate $M	Total $M
As at 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 liability	**–**	**–**	**–**	**(39.2)**	**(39.2)**
Total	**–**	**–**	**–**	**636.4**	**636.4**
As at 31 December 2020					
Segment assets	11,172.6	2,661.9	1.4	495.3	14,331.2
Segment liabilities	(11,172.6)	(2,661.9)	(0.7)	(104.1)	(13,939.3)
Current tax liability	–	–	–	(37.8)	(37.8)
Total	–	–	0.7	353.4	354.1

The Corporate division represents the Group's support functions not specifically aligned to business operations in the other divisions listed above (specifically Finance, Treasury, Operations, Risk, Human Resources, Administration, Legal and Technology) as well as the Group's executives' costs.

(H) Dividends

(a) Proposed dividends not recognised as a liability at the end of the reporting period

	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Final dividend for CY2021: $0.09 (CY2020: Nil)	**39.8**	–

The final dividend recommended after 31 December 2021 will be fully franked at 30%. There was no interim dividend paid in CY2021 (CY2020: Nil).

(b) Franking credits

	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Franking credits available for future years at 30%, adjusted for the payment of income tax and dividends payable or receivable	**54.1**	95.4
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	**(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.

4. Financial assets

(A) Cash and cash equivalents

Cash and cash equivalents comprises 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 2021 $M	**31 December 2020 $M**
Cash at bank	**129.4**	95.8
Restricted cash	**1,179.8**	789.7
Total cash and cash equivalents	**1,309.2**	885.5

	Year ended	
Reconciliation of profit after tax for the year to net cash flows from operating activities	**31 December 2021 $M**	**31 December 2020 $M**
Net profit after income tax from continuing operations	**130.7**	99.4
Profit/(loss) from discontinued operations	**182.2**	(129.4)
Net profit/(loss) after income tax	**312.9**	(30.0)
Non-cash items:		
Depreciation and amortisation expense	**24.5**	24.4
Amortisation of debt issuance transaction costs	**18.1**	14.0
Loan loss expense	**24.6**	56.7
Amortisation of loan origination fees and commissions	**58.7**	50.5
Employee benefits and share based-payment expenses	**11.2**	0.4
Other non-cash operating items	**0.7**	13.5
Tax expense	**(1.7)**	(18.2)
Total non-cash items	**136.1**	141.3
Profit/(loss) from discontinued operations	**(182.2)**	129.4
Net profit after non-cash items	**266.8**	240.7

Reconciliation of profit after tax for the year to net cash flows from operating activities *continued*	Year ended 31 December 2021 $M	Year ended 31 December 2020 $M
Movements in assets and liabilities:		
Receivables	**(2.2)**	(1.0)
Loans and advances	**(2,578.7)**	(300.8)
Other assets	**(3.2)**	1.0
Trade payables	**(4.0)**	7.0
Other liabilities	**7.2**	(30.0)
Borrowings	**(3.6)**	14.0
Property, plant and equipment	**(13.5)**	(4.0)
Current tax liability	**1.4**	7.0
Operating activities from discontinued operations	**(660.7)**	(1,280.5)
Total cash movements in assets and liabilities	**(3,257.3)**	(1,587.3)
Total operating cash movements	**(2,990.5)**	(1,346.6)

The below reconciliation includes both continuing and discontinued operations. Amounts related to discontinued operations are disclosed in Note 16(C).

Reconciliation of Financing Activities

	Issued Capital $M	Borrowings $M	Lease liability (in Other liabilities) $M	Deposits $M	Total $M
As at 31 December 2020	**601.8**	**17,199.3**	**18.0**	**4,636.9**	**22,456.0**
Financing cash flow - continuing operations	**488.2**	**2,287.7**	**(8.3)**	**-**	**2,767.6**
Finance cash flow - discontinued operations	**-**	**318.4**	**(1.6)**	**596.2**	**913.0**
Non-cash movements - continuing operations	**(360.7)**	**(72.4)**	**(1.0)**	**-**	**(434.1)**
Impact of restructure and other cash movements	**-**	**(3,215.8)**	**3.5**	**(5,233.1)**	**(8,445.4)**
As at 31 December 2021	**729.3**	**16,517.2**	**10.6**	**-**	**17,257.1**
Held in continuing operations	**729.3**	**16,517.2**	**10.6**	**-**	**17,257.1**
Held in discontinued operations	**-**	**-**	**-**	**-**	**-**

(B) Gross loans and advances

	As at	
	31 December 2021 $M	**31 December 2020 $M**
Gross loans and advances		
Loans and advances	**15,807.5**	13,333.5
Deferred transaction costs	**200.5**	154.2
Mortgage risk fee	**(77.3)**	(68.3)
Provision for loan impairment	**(110.9)**	(108.6)
	15,819.8	13,310.8
Provision for loan impairment		
Specific provision	**(19.1)**	(20.9)
Collective provision	**(91.8)**	(87.7)
	(110.9)	(108.6)
Specific provision		
Opening balance	**(20.9)**	(24.4)
Provided for during the year	**(20.5)**	(30.6)
Loans previously provided for written-off or sold	**22.3**	34.1
Specific provision closing balance	**(19.1)**	(20.9)
Collective provision		
Opening balance	**(87.7)**	(61.6)
Provided for during the year	**(4.1)**	(26.1)
Collective provision closing balance	**(91.8)**	(87.7)

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 1(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 effective interest (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 combined 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 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, gains and losses are recognised in profit or loss.

Impairment

The Group recognises an allowance for ECLs ('Provisions for loan impairment') for all debt instruments held at amortised cost.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, where applicable, cash flows from the sale of collateral held.

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

ECL for Loans and Advances

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

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

ECLs are monitored on a monthly basis as part of the Group's overall approach to monitoring, measuring and managing credit risk. A portfolio approach is taken in managing credit risk, with the individual management of facilities/customers applied to address specific circumstances as the credit life-cycle develops.

The Group has therefore aligned its approach to estimating ECLs with its credit risk management practices and the requirements of AASB 9, which incorporates segmentation between the following three stages at each reporting date:

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

Refer to Note 1(E) for the Group's key matters of judgement in estimating ECLs.

(C) Other financial assets

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

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

	As at	
	31 December 2021 $M	31 December 2020 $M
Equity investments held at FVTPL	**20.8**	15.3
Debt investments held at FVTPL	**1.9**	2.3
Debt investments held at amortised cost	**0.3**	2.0
Total other financial assets	**23.0**	19.6

Equity Investments

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

The Group performed fair value testing on its investments at the reporting date to assess whether the impact of COVID-19 and other business impacts has led to an impact on the asset's fair value. The fair value assessment included comparisons against forecasted operating performance at the time of investment. Refer to Note 6(A) for the valuation methodology for these investments.

Debt Investments

The Group's debt investments include debt investments held at FVTPL and several debt portfolio investments held at amortised cost.

5. Financial liabilities

(A) Provisions

	31 December 2021			31 December 2020		
	<12 months $M	>12 months $M	Total $M	<12 months $M	>12 months $M	Total $M
Bonus and other employee benefits	**20.9**	**3.3**	**24.2**	14.1	2.7	16.8
Provisions	**2.6**	**–**	**2.6**	2.0	–	2.0
Total	**23.5**	**3.3**	**26.8**	16.1	2.7	18.8

(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.
- 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 2021 $M	**31 December 2020 $M**
Non-recourse facilities	**16,375.9**	13,577.8
Government structured finance	**20.1**	28.5
Corporate debt facilities	**121.2**	190.7
Total borrowings	**16,517.2**	13,797.0

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

Government structured finance relates to the funds received as part of the Australian Office of Financial Management ('AOFM') Forbearance Program in 2020 which provided the Group with access to temporary liquidity support for COVID-19 hardship related missed interest payments on loans and other receivables. During the year, repayments of $9.7m (2020: Nil) were made and no further funds were drawn (2020: $28.8m).

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

During the year, 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 2021, $50.0m is drawn down on the total facility of $200.0m (2020: Nil).

This facility carries a floating interest rate at 3-month bank bill swap bid rate ('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.

During the year, under the Group's Debt Issuance Programme, the Group issued $70.0m of floating rate subordinated notes that mature in October 2025. The notes carry a floating interest rate at 3-month BBSW plus a margin.

Transaction costs directly attributable to the facilities have been capitalised and are amortised over the facility term.

(C) Other liabilities

	As at	
	31 December 2021 $M	**31 December 2020 $M**
Deferred consideration and other liabilities	**8.5**	1.5
Lease-related provisions and liabilities	**10.6**	18.0
Trail commissions payable to third parties	**0.8**	2.1
Total other liabilities	**19.9**	21.6

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 8(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.

	Year ended	
	31 December 2021 $M	**31 December 2020 $M**
Not later than 1 year	**5.3**	5.2
Later than 1 year	**2.7**	7.9
Total commitments	**8.0**	13.1

6. Financial instrument disclosures

(A) Fair value hierarchy

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

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

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

	Fair value hierarchy	Valuation technique and key inputs	As at 31 December 2021 $M	As at 31 December 2020 $M
Equity investments at FVTPL	**Level 2**	Recent arm's length market transaction	**20.8**	15.3
Debt investments at FVTPL	**Level 2**	Discounted cash flow, forward interest rates, contract interest rates, appropriate discount rates	**1.9**	2.3
Derivative financial assets and liabilities	**Level 2**	Discounted cash flow, forward interest rates, contract interest rates, counterparty valuations	**6.2**	(85.6)
Total			**28.9**	(68.0)

In the period to 31 December 2021 there has been no change in the fair value hierarchy or the valuation techniques applied to any of the balances above.

Fair value of assets and liabilities not measured at fair value

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

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

	Carrying value $M	Fair value $M	Difference $M
As at 31 December 2021 Loans and advances	**15,819.8**	**15,857.8**	**38.0**
As at 31 December 2020 Loans and advances	13,310.8	13,346.3	35.5

(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 responsibility

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.

(a) Maximum exposure to credit risk and the relative credit quality of financial assets

		Relative credit quality of assets	
31 December 2021 $M	**Maximum exposure to credit risk**	**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**

		Relative credit quality of assets	
31 December 2020 $M	**Maximum exposure to credit risk**	**Rated***	**Unrated**
Cash and cash equivalents	885.5	Investment grade	
Derivative financial instruments	1.1	Investment grade	–
Gross Mortgages loans and advances (including undrawn facilities)	11,179.8	–	–
LVR Band 90%+			514.0
LVR Band 75-90%			4,708.3
LVR Band 60-75%			3,251.0
LVR Band <60%			2,706.5
Gross Asset Finance loans and advances	2,653.0	–	
Commercial			1,024.4
Consumer			1,628.6
Receivables	5.4	–	5.4
Other financial assets	4.3	–	4.3
Total	14,729.1	–	13,842.5

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

As at 31 December 2021 the Group had $1,247.6m of undrawn customer facilities (2020: $982.0m).

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 and are not indexed. Collateral valuations are updated in limited circumstances, such as when the Group becomes a mortgagee in possession.

(b) 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 ($M) 31 December 2021			Loans and advances ($M) 31 December 2020		
Days in arrears	**Mortgages**	**Asset Finance**	**Total**	**Mortgages**	**Asset Finance**	**Total**
0 days and <30 days	**12,079.7**	**3,444.8**	**15,524.5**	10,367.8	2,584.8	12,952.6
30 days and less than 90 days	**31.0**	**53.1**	**84.1**	197.6	41.7	239.2
90 days and less than 180 days	**119.4**	**6.8**	**126.2**	69.2	7.2	76.4
180 days and less than 365 days	**27.2**	**0.7**	**27.9**	38.0	0.5	38.5
365 days and over	**41.6**	**3.2**	**44.8**	25.1	1.7	26.8
Total	**12,298.9**	**3,508.6**	**15,807.5**	10,697.6	2,635.8	13,333.5

(c) Expected credit loss provisions

Macroeconomic scenarios

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 2021 the weighting applied to each of these scenarios was as follows:

- Base case scenario (70%) - considers economist's and RBA forecasts as well as the Group's base case assumptions used in Management's strategic planning and forecasting.
- 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 (20%) - considers the potential impact of possible, but less likely, adverse macroeconomic conditions.
- 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 2021. 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 (70%)		Downside case (20%)	
	Mortgages	Asset Finance	Mortgages	Asset Finance	Mortgages	Asset Finance
Macroeconomic variable:						
GDP (annual % change)	4.5%	N/A	4.0%	N/A	3.5%	N/A
GDP (quarter on quarter % change)	N/A	0.8%	N/A	0.5%	N/A	0.3%
Unemployment rate (%)	N/A	4.0%	N/A	4.5%	N/A	5.0%
Cash rate (%)	0.25%	N/A	0.10%	N/A	0.10%	N/A
Residential property price index year-on-year % change (quarter)	5.0%	N/A	4.0%	N/A	3.0%	N/A

Post-model overlay adjustments

	Mortgages		Asset Finance		Total	
	31 December 2021 $M	31 December 2020 $M	31 December 2021 $M	31 December 2020 $M	31 December 2021 $M	31 December 2020 $M
COVID-19 Management overlay	**(13.0)**	(16.0)	**(2.0)**	(7.0)	**(15.0)**	(23.0)
Targeted model recalibration	**–**	–	**(16.7)**	–	**(16.7)**	–
Total	**(13.0)**	(16.0)	**(18.7)**	(7.0)	**(31.7)**	(23.0)

Targeted model recalibration

During the period 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 $16.7m (2020: nil) overlay to adjust for economic uncertainty and ongoing validation of the newly modelled ECL in these unprecedented times and will continue to assess the adequacy of the overlay at each reporting period.

COVID-19 Management overlay

As at 31 December 2021, 0.03% of the Group's loans and advances were subject to COVID-19 hardship payment deferrals (2020: 0.7%).

The Group has applied a COVID-19 Management Overlay to take into consideration the future ECL for those loans subject to COVID-related payment moratoriums and potential increases in defaults that may arise from COVID-19 in the future.

Whilst the ECL model forecasts expected credit loss incorporating macroeconomic forecasts and historical portfolio performance, the ECL model excludes possible delinquencies from borrowers on COVID-19 hardship payment moratoriums. Regulatory guidance for lenders outlines that borrowers under COVID-19 payment moratoriums were not considered in arrears during the moratorium. As payment moratoriums were applied to a wide range of borrowers and not linked specifically to credit assessments, these moratoriums are not indicators of a SICR in isolation. As a result, the Group applies a post-model adjustment, specifically a COVID-19 Management Overlay to take into consideration the future ECL for those loans subject to payment moratorium and potential increases in defaults that may arise from COVID-19 in the future. This overlay to the modelled ECL results reflects the application of judgement.

The COVID-19 Management Overlay balances are included in the collective provision total and capture the forecasted impact on the loan book relating specifically to economic uncertainty associated with the duration and severity of the COVID-19 pandemic. The COVID-19 Management overlay is based on the following Management ECL methodology:

- Borrowers in COVID-19 hardship status are not treated as having suffered a SICR and therefore were not automatically moved from Stage 1 to Stage 2.
- In order to assess staging of loans in COVID-19 hardship, Management developed two specific scenarios for the Mortgages and Asset Finance portfolios:
  - Best case scenario: all COVID-19 hardships are reported as being in the staging level they were in prior to application for hardship.
  - Worst-case scenario: all loans as at 31 December 2021 in COVID-19 hardship status are reported as being in Stage 2. Management believe that the use of the worst case scenario is as a more accurate reflection of the anticipated credit risk associated with this cohort.
- Other than as detailed below, all loans exiting COVID-19 hardship as at 31 December 2021 were treated as Stage 1 performing loans within the Group's ECL model.

Where the Group's customers utilising payment pauses have expressed negative sentiments on their ability to resume payments, the loan assets have been recorded as Stage 2 with the ECL allowance at 31 December 2021 reflecting this. Refer to Note sub-section (e) below for analysis.

As at the reporting date, the Group retained a COVID-19 Management Overlay given the ECL model does not fully capture credit risk of loans currently in hardship payment moratoriums related to the pandemic.

All overlays are reviewed and approved by Management at each reporting date. The provision coverage of the Group has been strengthened via forward looking adjustments for macro-economic assumptions and expected COVID-19 impacts (including customer and industry stress factors). Management continue to assess the level of coverage on a monthly basis.

(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 2021 $M	**31 December 2020 $M**
Reported probability-weighted ECL	**51.4**	57.4
100% base case scenario	**46.3**	49.2
100% downside scenario	**62.6**	66.2

Sensitivity of provisions for impairment to SICR assessment criteria

If 1% of Stage 1 credit exposures as at 31 December 2021 was included in Stage 2, provisions for impairment would increase by approximately $1.2m (2020: $1.2m).

If 1% of Stage 2 credit exposures as at 31 December 2021 was included in Stage 1, provisions for impairment would decrease by approximately $0.01m (2020: $0.02m).

(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 2021 and year ended 31 December 2020.

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 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**

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

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

The value of the collateral held as security for loans in Stage 2 and Stage 3 collective provision as at 31 December 2021 is $363.8m (2020: $590.8m).

The value of the collateral held as security for loans in Stage 3 specific provision as at 31 December 2021 is $4.4m (2020: $7.8m).

(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 2021 $M	31 December 2020 $M
Investments in trust notes	**394.5**	240.6
Cash collateral	**74.7**	52.8
	469.2	293.4
CRR obligations	**424.6**	403.3
Total exposure	**893.8**	696.7

(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 rate 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 $15.8b as at 31 December 2021 (2020: $13.3b), $3.4b is made up of loans and advances with fixed interest rates (2020: $2.6b) 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 derivatives 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 2021 $M	**31 December 2020 $M**
Loans and advances in special purpose entities	**14.6**	13.4
Borrowing costs in special purpose entities	**15.6**	14.3

(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 2021 there is no sensitivity to movements in foreign exchange rates. There is no material unhedged foreign exchange exposure as at 31 December 2021.

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.

(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.

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 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)**

		Fair value of derivative		Change in value		CFHR			
31 December 2020	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	2,650.4	-	(36.6)	(9.1)	9.1	19.7	23.8	(17.9)	25.6
Cross-currency interest rate swap	936.3	0.1	(50.1)	(67.6)	67.6	2.9	52.3	(49.3)	5.9
Fair value hedges									
Interest rate swaps	66	1.0	-	(0.2)	0.2	-	-	-	-
Total	3,652.7	1.1	(86.7)	(76.9)	76.9	22.6	76.1	(67.2)	31.5

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 2021 opening balance of the cash flow hedge reserve ('CFHR') contained $5.5m FCBS (2020: $10.1m) that subsequently reduced by $0.1m (2020: increased by $0.1m) during the year due to changes in fair value, partially offset by $2.4m (2020: $4.8m) 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 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**	**–**

31 December 2020	Average contracted fixed rate	< 1 year	1 - 2 years	2 - 5 years	> 5 years
Interest rate swap contracts Notional Amount $M	1.35%	783.6	821.0	1,055.3	56.4
Cross-currency interest rate swap contracts (AUD/USD) Notional Amount $M	$0.7265	321.5	177.7	91.9	–
Cross-currency interest rate swap contracts (AUD/EUR) Notional Amount $M	$0.6276	100.5	43.9	200.8	–

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 $2.1m increase/(decrease) on the income and equity (2020: $1.5m).

(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 5(B) and 7 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 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.

For the year ended 31 December 2021 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 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)**

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 2020						
Payables and other liabilities	(15.2)	(15.2)	–	–	–	(15.2)
Borrowings - non-recourse facilities	(1,300.8)	(7.8)	(605.8)	(725.9)	–	(1,339.5)
Derivative liabilities	(86.7)	(5.6)	(16.7)	(63.3)	(2.0)	(87.6)
Total	(1,402.7)	(28.6)	(622.5)	(789.2)	(2.0)	(1,442.3)

(j) Compliance and operational risk

Compliance risks 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
- IT and information security
- Reputation risk

During the years ending 31 December 2021 and 31 December 2020, the Group was exposed to the impacts of the COVID-19 virus which was managed utilising business continuity and contingency plans as noted below. Other than COVID-19, the Group experienced no significant compliance or operational risk event in the year ended 31 December 2021 (2020: None).

Resources for lending, operations and aggregation processes are reviewed regularly and significant investment has occurred in the current year in people and processes to enhance the operational risk management framework. Following the onset of COVID-19, work from home practices were implemented across the Group in order to protect our people from the risk of the disease. Security of data and restriction of access to IT systems was a key area of focus to ensure the businesses of the Group could continue to function and service customers and brokers effectively, without increasing risk of data breaches. This was a controlled and managed process with oversight by the Board. Staff in certain locations have commenced a return to office process on a staged basis.

7. 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 2020	251.9	601.8
Movement	–	–
Balance 31 December 2020	251.9	601.8

	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**

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

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

(B) Other equity and other reserves

	As at	
	31 December 2021 $M	31 December 2020 $M
Other equity	**–**	(0.8)
Common control reserve	**–**	(18.7)
Total other equity	**–**	(19.5)
Currency translation reserve	**(0.1)**	(1.9)
Cash flow hedge reserve	**8.7**	(43.7)
Share-based payments	**3.8**	–
Total other reserves	**12.4**	(45.6)

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 9 for further information on each of the schemes.

8. Non-Financial Assets

(A) Property, plant and equipment

	As at	
	31 December 2021 $M	**31 December 2020 $M**
Property, plant and equipment		
Right of use assets	**3.4**	8.7
Leasehold improvements	**2.7**	4.6
Plant and equipment	**0.5**	0.3
	6.6	13.6
Right of use assets		
Carrying amount at start of period	**8.7**	5.3
Additions	**–**	8.1
Depreciation expense	**(4.6)**	(4.7)
Written off	**(0.7)**	–
	3.4	8.7
Leasehold improvements		
Carrying amount at start of period	**4.6**	6.9
Depreciation expense	**(1.9)**	(2.2)
Written off	**–**	(0.1)
	2.7	4.6
Plant and equipment		
Carrying amount at start of period	**0.3**	1.1
Additions	**0.6**	0.1
Depreciation expense	**(0.3)**	(0.8)
Written off	**(0.1)**	(0.1)
	0.5	0.3
Total Property, plant and equipment	**6.6**	13.6

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) Intangible assets

	As at	
	31 December 2021 $M	**31 December 2020 $M**
Intangible assets		
Software	**31.5**	38.9
Software		
Opening balance	**38.9**	43.8
FX on opening	**(0.2)**	0.1
Additions	**9.7**	11.2
Amortisation expense	**(13.7)**	(11.1)
Written off	**(3.2)**	(5.1)
Other intangible assets		
Opening balance	**–**	1.4
(Derecognised)/additions	**–**	(1.1)
Amortisation expense	**–**	(0.2)
Written off	**–**	(0.1)
	–	–
Total Intangible assets	**31.5**	38.9

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

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.

Management had performed impairment testing on software at the reporting date to assess whether the impact of COVID-19 and other business conditions led to an asset impairment. As described in Note 2(B), during the year the Group revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements. This resulted in a c$1.0m impairment charge recorded in the year.

The effect of a change in the accounting policy for SaaS arrangements that were capitalised in prior periods has been assessed as immaterial and have not been adjusted in this financial report.

9. Share-based payments

During the year, the Group provided benefits to non-executive directors ('NEDs'), 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 2021, 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 3(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 following table details the number and weighted average exercise prices ('WAEP') and movements is share rights issued during the year, noting that 2021 marks the first year where share schemes were issued in Pepper Money Limited:

	2021 Number of units	2021 WAEP ($)	2020 Number of units	2020 WAEP ($)
Outstanding at 1 January	-	-	-	-
Granted	**4,853,904**	**1.23**	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at 31 December	**4,853,904**	-	-	-
Exercisable at 31 December	-	-	-	-

None of the plans were exercisable as at 31 December 2021.

Total expenses arising from equity-settled share-based payment transactions recognised during the year as part of employee benefits expense were $3.8m (2020: Nil).

There were no cancellations or modifications to the awards in 2021 or 2020. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (refer to Note 3(F)).

As at 31 December 2021, the Group had several share-based payment schemes in place, the details of which are set out below. There were no options or rights granted in prior years.

(a) Executive performance rights plan

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 a relative 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.
- Relative 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.
- The TSR base price for the Group is $2.89 (the IPO offer price) and the end price is the volume weighted average price ('VWAP') over 10 trading days up to and including the end of the performance period.
- The TSR base price for the index is the average index values over the 10 trading days prior to the IPO date and the end price is the average index values over the 10 trading days up to and including the end of the performance period.
- 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.

	Tranche 1	Tranche 2
Conditions		
Grant date	24 September 2021	24 September 2021
Share price at grant date	$2.49	$2.49
Performance period	25 May 2021 to 31 December 2023	1 July 2021 to 31 December 2023
Vesting 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
Number of rights granted	760,126	760,133
Expense for the period	$354,427	$891,792
Vested at the end of the period	None	None
Valuation methodology	Monte-Carlo	Binomial

There were no rights granted in prior 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
- 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 the Employee Service Rights scheme. 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 (31 December 2022) and the employee must achieve a 'meets expectation" rating in the final year of the measurement period (2022).

The measurement period is 2 years and no vesting will occur prior to the elapsing of this period.

Additional rights cannot be applied for.

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

Conditions	
Grant date	24 September 2021
Share price at grant date	$2.49
Measurement period	25 May 2021 to 31 December 2023
Vesting date	1 January 2024
Assumptions	
Dividend yield	3.3%
Other information	
WAFV	$2.49
Number of rights granted	240,855
Expense for the period	$207,938
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.

(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 the rights are expected to be settled in restricted shares.

Conditions	
Grant date	11 October 2021
Share price at grant date	$2.46
Exercise restriction period	90 days from grant date
Vesting date	Upon grant
Assumptions	
N/A	
Other information	
WAFV	$2.46
Number of rights granted	159,168
Expense for the period	$391,553
Vested at the end of the period	159,168
Valuation methodology	Rights valued based on grant date share price

(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 that 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
Measurement period	90 days from grant date
Vesting date	Upon grant of Plan Shares
Assumptions	
N/A	

Other information	
WAFV	TBC
Number of Plan Shares granted	TBC
Expense for the period	$139,078
Vested at the end of the period	None
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 Australian Stock Exchange 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.

Conditions	
Grant date	25 May 2021
Share price at grant date	$2.89
Performance period	N/A
Vesting date	Upon grant
Assumptions	
N/A	
Other information	
WAFV	$2.89
Number of shares granted	159,482
Expense for the period	$460,000
Vested at the end of the period	159,482
Valuation methodology	Shares valued based on grant date share price

(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) 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.

	IPO rights	IPO SARs
Conditions		
Grant date	24 September 2021	24 September 2021
Share price at grant date	$2.49	$2.49
Exercise share price	N/A	$2.89
Vesting date	March 2023	March 2023
Measurement period	1 January 2021 to 31 December 2022	1 January 2021 to 31 December 2022
Assumptions		
Expected volatility - Pepper Money Limited	40%	40%
Dividend yield	3.3%	3.3%
Risk-free interest rate	0.09%	0.35%
Expected life	2.3 years	3.6 years
Other information		
WAFV	$1.03	$0.37
Number of rights granted	713,421	2,060,719
Expense for the period	$244,941	$254,155
Vested at the end of the period	None	None
Valuation methodology	Monte Carlo	Monte Carlo

There were no rights granted in prior years.

(g) Deferred STVR restricted rights

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 incentive awards, applies to the CY2021 short-term incentive plan ('STIP').
- Deferred awards are made in the form of 'restricted rights".
- The number of rights to be granted will be calculated by reference to the award for each participant in respect of CY2021, the deferral rate of 35%, and divided by the 10 trading day VWAP following the release of the 2021 annual results.

The fair value of the Scheme equates to 35% of the calculated STVR amount.

Conditions	
Grant date	March 2022
Share price at grant date	TBC
Measurement period	N/A
Vesting date	Upon grant
Assumptions	
Dividend yield	3.3%
Other information	
WAFV	TBC
Number of rights granted	TBC
Expense for the period	$846,531
Vested at the end of the period	None
Valuation methodology	Shares valued based on grant date share price

10. 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 12(A) for more detail.

Name of subsidiary (controlled companies)	Principal activity	Place of incorporation and operation	31 December 2021	31 December 2020
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	Holding company	Australia	**100%**	100%

Name of subsidiary (controlled companies)	Principal activity	Place of incorporation and operation	31 December 2021	31 December 2020
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 Jalapeno Investments Pty Ltd	Dormant	Australia	**100%**	100%
Pepper Jalapeno Investments No. 2 Pty Ltd	Special purpose vehicle	Australia	**100%**	100%
Pepper SW1 Pty Limited	Dormant	Australia	**100%**	100%
Pepper Capital Corporation Pty Limited	Dormant	Australia	**100%**	100%
Pepper ES Holdings Pty Ltd (in liquidation)	Dormant	Australia	**100%**	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%
PSO (Manila) Limited	Management services	United Kingdom[2]	**100%**	100%

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

The Group undertook a Restructure prior to listing on the ASX. Details of the impact of the Restructure are detailed in Note 16.

2. PSO (Manila) Limited was incorporated in the United Kingdom, however, operations are in the Philippines.

(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 2021 and 31 December 2020, as well as balances with related parties as at 31 December 2021 and 31 December 2020.

$'000	Dividend income/ (paid)	Interest income and other fees	Interest expense and other fees	Receivable	Payable
Entity with significant influence over the Group:					
Pepper Group ANZ Holdco Limited – 2021	**–**	**–**	**(2,977)**	**298**	**–**
Pepper Group ANZ Holdco Limited – 2020	–	–	–	–	–
Pepper Group Services Australia Pty Ltd – 2021	**–**	**175**	**(1,794)**	**–**	**(2,893)**
Pepper Group Services Australia Pty Ltd – 2020	–	–	–	–	–
Red Hot Australia Holdco Pty Ltd - 2021	**–**	**–**	**–**	**–**	**–**
Red Hot Australia Holdco Pty Ltd - 2020	–	–	–	19,028	–
Red Hot Australia Bidco Pty Ltd - 2021	**–**	**–**	**(4,538)**	**–**	**–**
Red Hot Australia Bidco Pty Ltd - 2020	–	–	(25,697)	11,616	(366,524)
Other related parties of Pepper Money Limited - 2021	**470**	**602**	**(4,110)**	**914**	**–**
Other related parties of Pepper Money Limited - 2020	953	5,188	(3,973)	–	–
Associate:					
PrimeCredit Holdings Ltd – 2021	**–**	**–**	**–**	**–**	**–**
PrimeCredit Holdings Ltd – 2020	5,758	–	–	–	–

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

During the year, 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.

	Year ended	
	31 December 2021 $M	**31 December 2020 $M**
Loans to key management personnel of the Group		
Loan balances	**5,593**	–
Interest received	**–**	–

(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 2021 $'000	**31 December 2020 $'000**
Key management personnel remuneration		
Short-term employee benefits	**(3,401)**	(4,922)
Post-employment benefits	**–**	(110)
Termination benefits	**(608)**	(509)
Share-based payment benefits	**(300)**	(606)
Total key management personnel remuneration	**(4,309)**	(6,147)

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.

The 2020 comparative numbers include KMP of discontinued operations who are not considered KMP of the Group.

11. 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 2021.

The individual consolidated financial statements for the parent entity of the Group's continuing operations show the following aggregate amounts:

	Year ended	
	31 December 2021 $M	**31 December 2020 $M**
Net interest income	**24.6**	13.4
Other operating income	**444.8**	377.3
Dividend income	**390.0**	–
Total operating income	**859.4**	390.7
Employee benefits expense	**(91.2)**	(76.4)
Marketing expense	**(10.6)**	(10.3)
Technology expense	**(19.7)**	(19.7)
Other operating expenses	**(163.3)**[3]	(31.0)
Depreciation and amortisation expense	**(21.6)**	(15.7)
Corporate interest expense	**(17.7)**	(45.4)
Income tax expense	**(73.2)**	(41.6)
Net profit after tax	**462.1**	150.6

3. Other operating expenses in the year includes an intercompany loan write-off of $96.0m.

	As at	
	31 December 2021 $M	**31 December 2020 $M**
Assets		
Cash and cash equivalents	**112.9**	78.3
Receivables	**437.1**	978.2
Derivative financial assets	**–**	13.6
Deferred tax assets	**42.9**	37.2
Intangible assets	**31.2**	38.3
Other asset categories	**465.3**	434.6
Total assets	**1,089.4**	1,580.2
Liabilities		
Current tax	**39.2**	42.7
Borrowings	**81.9**	522.1
Derivative liabilities	**–**	7.2
Other liability categories	**42.5**	55.4
Total liabilities	**163.6**	627.4
Total net assets	**925.8**	952.8
Equity		
Issued capital	**729.3**	601.8
Other reserves	**3.8**	0.2
Retained earnings	**192.7**	350.8
Total equity	**925.8**	952.8

(B) Guarantees entered into by the parent entity

As at 31 December 2021, there were no financial guarantees (2020: Nil).

(C) Contingent assets and liabilities of the parent entity

As at 31 December 2021, there were no contingent assets (2020: 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 $749.3m (2020: $700.7m).

(D) 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 2021 or 2020.

(E) 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

Investments in subsidiaries and associates are accounted for at cost in the consolidated financial statements of Pepper Money Limited. If applicable, dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(b) Tax consolidation legislation

Pepper Money Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

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.

12. 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 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*.

(B) Non-consolidated structured entities

The Group's interests in non-consolidated structured entities can be categorised as follows:

- *Investments in non-Group special purpose vehicles (SPVs).* Each of the SPVs the Group has an investment in or service, is designed to invest in and manage consumer, commercial or residential loan portfolios. The SPVs finance themselves by issuing note securities which entitle the holder to a specified stream of cash flows from the loan portfolios. However, for these SPV's Pepper Money Limited does not meet the consolidation rules under AASB 10.
- *Receivables earned in the course of servicing non-Group SPVs.*

The nature and extent of the Group's interests, as well as the Group's maximum exposure to loss, can be summarised as follows:

	As at	
	31 December 2021 $M	31 December 2020 $M
Investments in non-consolidated SPVs	**1.9**	2.3
Receivables from non-consolidated SPVs	**0.4**	0.4
Total	**2.3**	2.7

The Group's maximum exposure to loss in non-consolidated SPVs is limited to the carrying value of any investments in or receivables from the structured entities, as listed above. There are no additional off balance sheet arrangements with non-consolidated structured entities which would expose the Group to potential loss.

During the year the Group earned interest from its investments and servicing revenue from servicing contracts with a number of structured entities.

13. Commitments

(A) Capital commitments

The Directors were not aware of any capital commitments as at the end of the financial year or arising since balance date.

(B) Lease commitments: Group as lessee

The Group has provided guarantees in respect of the leases over its office premises of $3.4m (2020: $3.4m).

14. Contingent liabilities

The Directors were not aware of any contingent liabilities as at the end of the financial year or arising since balance date.

15. Remuneration of auditors

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

	Year ended 31 December 2021 $	Year ended 31 December 2020 $
Deloitte Touche Tohmatsu		
Audit and review of financial statements	**1,157,500**	3,162,551
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	**971,799**	260,587
Other services – advisory		891,616
	2,129,299	4,314,754
Other auditors		
Audit and review of financial statements	**–**	568,246
Other services – tax consulting	**476,908**	–
	476,908	568,246
Total remuneration	**2,606,207**	4,883,000

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.

16. Discontinued operations

(A) Background[4]

PrimeCredit Holdings Ltd ('PrimeCredit')

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

Rest of World Business Operations (excluding PrimeCredit)

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

For the purpose of the distribution of non-cash items, the Rest of World business operations were sold at a fair value determined by an independent valuation and this resulted in an overall gain of $192.1m. The gain was recognised in the condensed consolidated statement of profit or loss. This was facilitated through dividend distributions of $22.1m to its current immediate holding Company ('Holdco') and $597.9m to its previous immediate parent entity Red Hot Australia (Bidco) Pty Ltd ('Bidco'). The Group also repatriated $14.1m 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.

4. On the date the Restructure occurred, the most significant foreign exchange rates were: GBP:AUD: 0.554:1, EUR:AUD: 0.648:1 and KRW:AUD: 858:1.

(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 year and prior comparative period.

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 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

31 December 2020	Prime Credit $M	Europe Servicing $M	South Korea $M	UK Lending $M	Spain Lending $M	Group Corporate $M	Total $M
Total revenue	–	148.4	341.1	51.3	73.5	1.0	615.3
Total expenses	–	(127.2)	(358.6)	(81.9)	(101.6)	(69.8)	(739.1)
Equity (losses)/profits from associates	(22.3)	–	1.6	–	–	–	(20.7)
Profit/(loss) before tax	(22.3)	21.2	(15.9)	(30.6)	(28.1)	(68.8)	(144.5)
Income tax expense	–	(3.7)	(6.5)	6.6	4.0	14.7	15.1
Profit/(loss) after tax	(22.3)	17.5	(22.4)	(24.0)	(24.1)	(54.1)	(129.4)

(C) Cash flows

The table below presents a consolidated view of the cash flow statements for the year ended 31 December 2021 and 2020. Cash flows for both discontinued and continuing operations are presented.

The year ended cash balances agree to the Pepper Group Pty Limited financial statement for the year ended 31 December 2020.

Reclassified CY2020 comparative information

To align the policies of the Group, the classification of several items in the consolidated statement of cash flows, as presented in the annual financial report for the year ended 31 December 2020, has been amended.

These changes include:

- Proceeds from sale of loan portfolios, previously disclosed under investing activities, has now been included within operating activities
- Payments of net loans to borrowers, previously disclosed under investing activities, has now been included within operating activities
- Payments for arrangement fees, previously disclosed under investing activities, has now been included within operating activities under Payments to suppliers and employees.

Management deems these reclassifications more appropriate and notes that these changes were immaterial.

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 & 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 equivalents at the beginning of the financial period	885.5	1,005.0	1,890.5
Cash and cash equivalents at end of year	1,309.2	–	1,309.2

The net cash outflow from disposal of businesses on the cash flow statement includes the discontinued operations cash at the beginning of the period and exchange rate changes.

Consolidated statement of cashflows 2020 $M	Continuing operations	Discontinued operations	Total
Operating activities			
Interest received	709.4	685.8	1,395.2
Interest paid	(365.3)	(208.2)	(573.5)
Receipts from loan fees and other income	56.3	186.1	242.4
Payments to suppliers and employees	(179.9)	(462.6)	(642.5)
Payments of net loans to borrowers	(640.2)	(1,766.7)	(2,406.9)
Proceeds from sale of loan portfolios	420.3	213.0	633.3
Intercompany operating transactions	(73.1)	73.1	–
Income taxes received/(paid)	6.4	(1.0)	5.4
Net cash (outflow) from operating activities	(66.1)	(1,280.5)	(1,346.6)
Investing activities			
Payment for intangibles and other assets	(11.9)	(35.4)	(47.3)
Net payments for investments	(3.9)	(42.8)	(46.7)
Intercompany investing transactions	(20.2)	20.2	–
Amounts (paid to) related parties	(0.3)	(0.6)	(0.9)
Net cash (outflow) from investing activities	(36.3)	(58.6)	(94.9)
Financing activities			
Proceeds from borrowings	8,818.5	171.9	8,990.4
Repayment of borrowings	(8,547.5)	–	(8,547.5)
Repayment of lease liability	(8.4)	–	(8.4)
Increase in deposits	–	1,121.0	1,121.0
Net cash inflow from financing activities	262.6	1,292.9	1,555.5
Net increase/(decrease) in cash & cash equivalents	160.2	(46.2)	114.0
Effects of exchange rate changes on balance of cash held in foreign currencies	–	(31.2)	(31.2)
Cash and cash equivalents at the beginning of the financial period	725.3	1,082.4	1,807.7
Cash and cash equivalents at end of year	885.5	1,005.0	1,890.5

(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 2021.

(E) Details of entities over which control has been lost during the year

On the 31st March 2021, the Group completed a Restructure. Following the Restructure, the Group lost control over the following entities:

Entity	Date of loss of control	Entity	Date of loss of control
Pepper Saving Bank Co. Limited	30 March 2021	Pepper Spain Consumer Finance II Limited	30 March 2021
Pepper Korea Holdings Chusik	30 March 2021	Coral Receivables DAC	30 March 2021
W Solution Credit Co., Limited	30 March 2021	Pepper Iberia Unsecured 2019 DAC	30 March 2021
Pepper Money Group Limited	30 March 2021	Pepper Colombia S.A.S.	30 March 2021
Pepper Money (PMB) Limited	30 March 2021	Dental Consumer Financial Services, S.A.S.	30 March 2021
Pepper Money Limited	30 March 2021	Pepper (UK) Limited	30 March 2021
Pepper Money Asset Servicing Limited	30 March 2021	Pepper Finance Corporation (Ireland) Limited	30 March 2021
Optimum Credit Limited	30 March 2021	Pepper Finance (H73) Limited	30 March 2021
Optimum Three Limited	30 March 2021	Pepper Financial Holdings Limited	30 March 2021
Castell 2017-1 plc	30 March 2021	Vesta Asset Management, Sociedad Limitada	30 March 2021
Castell 2018-1 plc	30 March 2021	Pepper Spanish Services, Sociedad Limitada	30 March 2021
Castell 2019-1 plc	30 March 2021	Pegaso Consumer Loans Limited	30 March 2021
Castell 2020 plc	30 March 2021	Pepper Hellas Asset Management Societe Anonyme	30 March 2021
Cayenne Funding Limited	30 March 2021	Avent I.K.E.	30 March 2021
NAGA Funding Limited	30 March 2021	Pepper Greece Societe Anonyme	30 March 2021
Jalapeno Funding Limited	30 March 2021	Pepper Cyprus Limited	30 March 2021
Securitisation Entity Polaris 2018-01	30 March 2021	Pepper India Resolution Private Limited	30 March 2021
Pepper Asset Servicing Sociedad Limitada	30 March 2021	Securitisation Entity Polaris 2020-1	30 March 2021
Pepper Finance Corporation Sociedad Limitada	30 March 2021	Millennium Holdings K.K.	30 March 2021
Pepper International Business Development Sociedad Limitada	30 March 2021	Millennium Corporation K.K.	30 March 2021

Entity	Date of loss of control	Entity	Date of loss of control
Millennium Asset Consulting K.K.	30 March 2021	Pepper Finance (H62) Limited	30 March 2021
Millennium Capital Management K.K.	30 March 2021	Pepper Global (Singapore) Pte Limited	30 March 2021
K.K. Tokyo Kigyo Saisei	30 March 2021	Pepper Global Assets (Singapore) Pte Limited	30 March 2021
Godo Kaisya Parrot Capital	30 March 2021	Pepper Group (HK) Limited	30 March 2021
Godo Kaisya Swan Capital	30 March 2021	Pepper Group (Hong Kong) Limited - Singapore Branch	30 March 2021
Godo Kaisya Egret Capital	30 March 2021	Pepper Cyprus Holdings Limited	30 March 2021
Godo Kaisya MC Asset Seven	30 March 2021	Pepper Europe (UK) Limited	30 March 2021
Godo Kaisya King Fisher Capital	30 March 2021	Pepper Europe Investments UK Limited	30 March 2021
Godo Kaisya MC Capital Seven	30 March 2021	Pepper European Servicing Limited	30 March 2021
Godo Kaisya MC Capital Eight	30 March 2021	Pepper Global Asian Holdco Limited	30 March 2021
Godo Kaisya MC Capital Nine	30 March 2021	Pepper Spanish Holdings Limited	30 March 2021
Godo Kaisya MC Asset Ten	30 March 2021	Pepper Portuguese Holdings Limited	30 March 2021
Pepper Indonesia Holdings Limited	30 March 2021	Pepper Italian Investments Limited	30 March 2021
Pepper Property Group Pty Limited	30 March 2021	Pepper Global Korea Holdco Limited	30 March 2021
Pepper Property (WA) Pty Limited	30 March 2021	Pepper Group Services Pty Limited	30 March 2021
Pepper Asset Management Pty Limited	30 March 2021	Pepper Group Assets Pty Limited	30 March 2021
Pepper China Asset Management Co Limited	30 March 2021	Pepper Australia Investments Pty Limited	30 March 2021

17. Events occurring after the reporting period

Final dividend declared

The Pepper Money Limited Board declared a fully-franked final dividend of $0.09 per share on 23 February 2022. The Record Date is 15 March 2022 and the payment date will be 14 April 2022.

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 1) including the Notes set out on pages 69 to 137:

(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

Sydney, 24 February 2022

Independent Auditor's Report

Deloitte Touche Tohmatsu
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Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

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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 2021, 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 2021 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 2021, the Group has recognized $110.9m 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).
 	
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
	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;
	• 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 valuation of collateral;
	    o timing of expected cash flows; and

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light of the current macroeconomic environment, including the ongoing impact of COVID-19; • The identification of exposures with significant movement in credit quality to determine whether 12 month or lifetime ECL should be recognized; • 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 4(B); and • Management judgements used in the calculation of overlays to the ECL models.	o assumptions used in modelling including Probability of Default ("PD"), Loss Given Default ("LGD") and, in particular, forward-looking assumptions and scenarios; • Testing the mathematical accuracy of the ECL models through re-performance; • Identifying key inputs used in calculation of collective provisions, and testing a sample of the source data used in the collective impairment model, and a sample of the calculations within the models for mathematical accuracy and completeness; • Assessing the appropriateness of modelled base losses against actual historical loss, as a point of reference; and • 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 4(B) to the financial statements.
Interest income recognition The Group reported interest income from customers of $687.9m for the year ended 31 December 2021. Interest income received from loans and advances is calculated using the effective interest rate ('EIR') method under AASB 9 *Financial Instruments*. EIR determination require management to make significant judgements in determining the period over which expected cash flows are estimated to be received. The EIR method is based on a management revenue recognition model with a number of key estimates and assumptions including identifying the fees received between parties to the loan contracts which need to be included in the determination of the EIR. The Group's disclosure over the effective interest rate is disclosed in Note 3 (A).	Our procedures included, amongst others: • Understanding and evaluating the IT systems and control environment for recording revenue recognition; • Evaluating the design and implementation of relevant controls relating to the calculation 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 of loan origination fees and expenses within the EIR model; • Assessing the impacts of changes in estimated cash flows due to early repayment of loans; • Recalculating the interest income using the EIR method on both the residential mortgages and asset finance portfolios; and • Agreeing a sample of key inputs to the EIR model to underlying source data, such as signed loan agreements and bank statements. We also assessed the appropriateness of the disclosures in Note 3 (A) 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 2021, 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 have 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

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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 38 to 68 of the Directors' Report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Pepper Money Limited, for the year ended 31 December 2021, 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

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Partner
Chartered Accountants

Sydney, 24 February 2022

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 2022.

Opting in for electronic communication.

47.81% 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: 439,505,908 paid ordinary shares are held by 3,570 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	1,508	747,720	0.17%
1,001 – 5,000	1,359	3,507,691	0.80%
5,001 – 10,000	355	2,629,015	0.60%
10,001 – 100,000	315	8,577,720	1.95%
100,001 – 9,999,999,999	33	424,043,762	96.48%
Totals	**3,570**	**439,505,908**	**100.00%**

Unmarketable Parcel

As at 31 January 2022 there were 193 holdings of less than a marketable parcel (less than $500 in value or 247 number of shares based on the market price of $2.03 per share) which is less than 5.40% 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	No of shares	%
Pepper Group ANZ Holdco Limited	266,309,851	60.59%
Australian Super Pty Ltd	40,630,247	9.24%

Twenty largest shareholders

The 20 largest shareholders of ordinary shares on the Company's register at 31 January 2022 were:

Shareholder	Number of shares	%
Pepper Group ANZ Holdco Limited	266,309,851	60.59%
J P Morgan Nominees Australia Pty Limited	52,833,624	12.02%
National Nominees Limited	27,019,090	6.15%
HSBC Custody Nominees (Australia) Limited	15,609,183	3.55%
Citicorp Nominees Pty Limited	10,660,361	2.43%
BNP Paribas Noms Pty Ltd	9,649,888	2.20%
UBS Nominees Pty Ltd	8,241,721	1.88%
Netwealth Investments Limited	8,016,989	1.82%
Brispot Nominees Pty Ltd	5,400,677	1.23%
HSBC Custody Nominees (Australia) Limited	4,671,933	1.06%
CS Third Nominees Pty Limited	2,874,073	0.65%
Denise Aoun	2,387,234	0.54%
CS Fourth Nominees Pty Limited	2,105,394	0.48%
Morgan Stanley Australia Securities (Nominee) Pty Limited	1,952,699	0.44%
Merrill Lynch (Australia) (Australia) Nominees Pty Limited	1,326,389	0.30%
John Williams	637,858	0.15%
Sue Kent	618,964	0.14%
Sally Jane Thompson	595,501	0.14%
BNP Paribas Nominees Six Sis Limited	592,140	0.13%
BNP Paribas Nominees Pty Ltd	329,075	0.07%
Total Securities of Top 20 Holdings	**421,832,644**	**95.98%**
Total of Securities	**439,505,908**	

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 (SRIN), 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: Grosvenor Place
Level 12, 225 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 Section3 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) (Formerly Pepper Group Pty Ltd).
CGS	Corporate Governance Statement as per Section 8 of the Operating and Financial review.
Cost to Income or **CTI**	total operating expenses including depreciation and amortisation and corporate interest expense divided by total operating income before loan losses.
Corporations Act	*Corporations Act 2001* (Cth).
CPR	the conditional prepayment rate, the proportion of the principal of a pool of loans that is expected to be paid off prematurely in each payment period.
CRE	commercial real estate.
Director	a member of the Board.
Distribution Partners	Pepper Money's network of distributors.

Term	Meaning
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.
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.
Executive Rights Plan	as defined in Section 3.5 of the Remuneration Report.
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 3 of the Operating and Financial.
MPF	Mortgage Protection Fee.
NED Equity Plan	as defined in Section 3.7.2 of the Remuneration report.

Term	Meaning
NED Rights	as defined in Section 3.7.2 of the Remuneration report.
Non-Conforming or **Non-Prime**	Home loans not adhering to the traditional standard lending criteria of ADIs.
Non-Executive Director	a member of the Board of Directors who does not form part of Management.
Non-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.
PAYG	Pay as you go.
PCP	refers to prior comparative period being December 2020.
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) (renamed from Pepper Group Pty Ltd).
Pepper Money Pro Forma Financial Information	As defined in Table 18 of Section 4.1 of the Prospectus lodged with ASIC on 7 May 2021.
Prime	home loans adhering to the traditional standard lending criteria of Authorised Deposit Institution (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 3 of the Operating & Financial review.
Share Registry	Boardroom Pty Limited (ABN 14 003 209 836).
Shareholder Representative Director	each of Michael Culhane and Des O'Shea.

Term	Meaning
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
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+61 (0) 2 9322 7000

Other information

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

Investor Relations

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