

REPORT REVIEW

Pepper Money Social Bond Annual Review Sustainability Bond Allocation and Impact Report

Social Bond Annual Review Sustainability Bond Allocation and
Impact Report Pepper Money

23 October 2023

VERIFICATION PARAMETERS

Type(s) of reporting

- Social Bond Annual Review Sustainability Bond Allocation and Impact Report

Relevant standard(s)

- Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB), updated June 2022, as administered by International Capital Market Association (ICMA)
- Pepper Money's Sustainability Bond Allocation and Impact Report (as of October 18, 2023)
- Pepper Money's Social Bond Framework (as of April 26, 2022)
- Bond(s) identification:

Scope of verification

ISIN	Bond Maturity	Bond Issuance Amount
AU3FN0068565	September 2063	AUD 80,000,000
AU3FN0068573	September 2063	AUD 145,000,000
AU3FN0068581	September 2063	AUD 43,200,000
AU3FN0068599	September 2063	AUD 11,100,000
AU3FN0068607	September 2063	AUD 7,500,000
AU3FN0068615	September 2063	AUD 5,400,000
AU3FN0068623	September 2063	AUD 2,400,000
AU3FN0068631	September 2063	AUD 2,400,000
Not applicable (Class G1 Notes)	September 2063	AUD 1,500,000
Not applicable (Class G2 Notes)	September 2063	AUD 1,500,000

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Social Bond Annual Review Sustainability
Bond Allocation and Impact Report
Pepper Money



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Lifecycle

- Post-issuance verification

Validity

- As long as no changes are undertaken by the Issuer to its Sustainability Bond Allocation and Impact Report as of October 18, 2023

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SCOPE OF WORK

Pepper Money (“the Issuer”) commissioned ISS Corporate Solutions (ICS) to provide a Report Review¹ on its Social Bond Annual Review Sustainability Bond Allocation and Impact Report by assessing:

1. The alignment of the Pepper Money’s Sustainability Bond Allocation and Impact Report with the commitments set forth in Pepper Money Social Bond Framework (as of April 26, 2022)².
2. Pepper Money’s Sustainability Bond Allocation and Impact Report - benchmarked against Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB), updated June 2022, as administered by the International Capital Market Association (ICMA).
3. The disclosure of proceeds allocation and soundness of reporting indicators – whether the impact metrics align with best market practices and are relevant to the Social Bonds issued.

¹ A limited or reasonable assurance is not provided on the information presented in Pepper Money Sustainability Bond Allocation and Impact Report. A review of the use of proceeds’ allocation and impact reporting is solely conducted against ICMA’s Standard (Social Bond Principles) core principles and recommendations where applicable, and the criteria outlined in the underlying Framework. The assessment is solely based on the information provided in the allocation and impact reporting. The Issuer [or Pepper Money] is responsible for the preparation of the report including the application of methods and internal control procedures designed to ensure that the subject matter information is free from material misstatement.

² The Framework was assessed as aligned with the Social Bond Principles as of April 26, 2022.

ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION
<p>Part 1.</p> <p>Alignment with the Issuer's commitments set forth in the Framework</p>	<p>The Pepper Money's Sustainability Bond Allocation and Impact Report meets the Issuer's commitments set forth in the Social Bond Framework. The proceeds have been used to (re)finance Access to Essential Services and Socioeconomic Advancement and Empowerment in accordance with the eligibility criteria defined in the Framework.</p>	<p>Aligned</p>
<p>Part 2.a</p> <p>Alignment with the Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB)</p>	<p>The Sustainability Bond Allocation and Impact Report is in line with ICMA's Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB). The Issuer follows core principles and where applicable key recommendations.</p> <p>The Issuer has reported the bond allocation on an annual basis, disclosed amount of proceeds allocated, the target population, sector specific core indicator and social impact in line with the recommendations of the HFIRSB.</p>	<p>Aligned</p>
<p>Part 3.</p> <p>Disclosure of proceeds allocation and soundness of reporting indicators</p>	<p>The allocation of the bond's proceeds has been disclosed as proposed in the Framework.</p> <p>The Pepper Money's Sustainability Bond Allocation and Impact Report has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculations methodologies and granularity reflecting best market practices.</p>	<p>Positive</p>

REPORT REVIEW ASSESSMENT

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE SOCIAL BOND FRAMEWORK ³

The following table evaluates the Sustainability Bond Allocation and Impact Report against the commitments set forth in Pepper Money’s Framework, which are based on the core requirements of the Social Bond Principles as well as best market practices.

SBP	OPINION	ALIGNMENT WITH COMMITMENT
<p>1. Use of Proceeds</p>	<p>Pepper Money confirms to follow the Use of Proceeds’ description provided by Pepper Money’s Social Bond Framework. The report is in line with the initial commitments set in Pepper Money’s Social Bond Framework.</p> <p>The Issuer’s social category is in accordance with the eligibility criteria set in the Pepper Money’s Social Bond Framework. The proceeds have been used to (re)finance the following social categories: Access to Essential Services and Socioeconomic Advancement and Empowerment in accordance with the eligibility criteria defined in the Framework. Social benefits at either project level are described and quantified.</p> <p>Pepper Money has raised total capital of Australian dollar (AUD) 300 million. 100% of assets have been allocated. The Issuer has committed the maximum amount of each loan in the pool was AUD 1.25m at issuance. Further, Pepper Money has ensured that only loans advanced in relation to owner-occupied principal residential properties will be earmarked to support the issuance of Social Bonds. The Issuer confirms that investment properties or “second” homes have not been financed.</p> <p>The Issuer does not finance any of the activities related to gambling, alcohol, smoking or drug related activities, weapons of warfare, predatory lending, fossil fuel production or inhumane treatment of animals that are defined in the framework.</p>	<p style="text-align: center;">✓</p>

³ The Pepper Money Social Bond Framework was assessed as aligned with the SBP (as of June 2021) as of as of April 26, 2022.

<p>2. Process for Project Evaluation and Selection</p>	<p>Pepper Money confirms it follows the Process for Project Evaluation and Selection description provided by Pepper Money’s Social Bond Framework. The report is in line with the initial commitments set in the Pepper Money’s Social Bond Framework.</p> <p>The projects selected are defined and structured in a congruous manner. The Issuer ensures compliance with the Eligibility Criteria. ESG risks associated with the project categories are identified and managed through an appropriate process.</p> <p>The Issuer clearly defines responsibilities in the process for project evaluation and selection. Additionally, the Issuer involves various stakeholders in this process.</p>	<p>✓</p>
<p>3. Management of Proceeds</p>	<p>Pepper Money confirms it follows the Process for Management of Proceeds description provided by Pepper Money’s Social Bond Framework. The report is in line with the initial commitments set in the Pepper Money’s Social Bond Framework.</p> <p>The proceeds collected represent 100% of the amount allocated to eligible projects, with no exceptions. The proceeds are tracked in an appropriate manner and attested in a formal internal process.</p>	<p>✓</p>
<p>4. Reporting</p>	<p>The Pepper Money Impact Report is coherent with the Reporting description provided by Pepper Money’s Social Bond Framework. The report is in line with the initial commitments set in the Pepper Money’s Social Bond Framework.</p> <p>The sections “Allocation Reporting” and “Impact Reporting” of the Sustainability Bond Allocation and Impact Report comply with the pre-issuance commitment expressed in the Framework. The report is intended to be publicly available on the Issuer’s website⁴.</p> <p><i>Further analysis of this section is available in Part III of this report.</i></p>	<p>✓</p>
<p>5. Verification</p>	<p>ISS ESG has provided a Second Party Opinion (SPO) on Pepper Money’s Social Bond Framework in May 2022.</p>	

⁴ Pepper Money’s website: www.pepper.com.au/investors/debt-investors

PART II: ASSESSMENT AGAINST THE ICMA HARMONISED FRAMEWORK FOR IMPACT REPORTING FOR SOCIAL BONDS (HFIRSB)

Reporting is a core component of the SBP and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of an annual reporting. Social bond Issuers are required to report on both the use of social bond proceeds, as well as the social impacts at least on an annual basis until full allocation. Harmonized Framework for Impact Reporting for Social Bonds (HFIRSB) has been chosen as benchmark for this analysis as it represents the most widely adopted standard.

The table below evaluates Pepper Money Sustainability Bond Allocation and Impact Report against ICMA Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB).

CORE PRINCIPLES		
ICMA HFIRSB	Sustainability Bond Allocation and Impact Report	ASSESSMENT
Reporting on an annual basis	Pepper Money has reported within one year from issuance and all the proceeds have been fully allocated (AUD 300 million). The bonds were issued under Pepper Social Trust 1 on June 9, 2022. The report will be available on Pepper Money’s website. ⁵	✓
Formal internal process to track proceeds	The Pepper Money confirms project selection and management of proceeds to be in line with the criteria set forth in the underlying Framework.	✓
Allocation of the proceeds to social project categories	In accordance with the criteria established within the Framework, in compliance with the Social Bond Principles issued by the ICMA, Pepper Money has allocated the net proceeds of the bonds issued under this Framework to eligible asset within the following category: <ul style="list-style-type: none"> Australian owner-occupied mortgage loans to an underserved and undervalued population 	✓
Target Population(s) identified	The Issuer defined targeted populations for the project category: Australian owner-occupied mortgage loans to an underserved and undervalued population.	✓

⁵ [Social Bond Annual Review, Sustainability Bond Allocation and Impact Report 2023, Pepper Money](#)

	The Issuer refers to definitions for targeted populations in its framework and Sustainability Bond Allocation and Impact Report.	
Output, outcome and/or impact of projects at project or portfolio level	The Issuer referred to existing indicator lists and catalogs from Annex III of the HFIRSB: (i.e Number of beneficiaries – 668 nos.). A detailed analysis of the impact indicator is available in Part III of this report.	✓
Illustrating of the social impacts	The assessment and measurement of the impacts generated by Pepper Money Social Bonds covered the following areas: <ul style="list-style-type: none"> ▪ Number of beneficiaries (underserved borrowers) receiving loan 	✓
Pro-rated share of the overall impact results of the projects or portfolio of projects	The Issuer does not report the pro-rated share of the overall impact results of the projects or portfolio of projects as there is only one category financed.	✓

RECOMMENDATIONS

ICMA HFIRSB	Sustainability Bond Allocation and Impact Report	ASSESSMENT
Disclose the methodology and the assumptions used for the calculation of impact indicators	The Issuer reports on an actual absolute output indicator, however it does not disclose any qualitative impact indicators. The Issuer confirms regularly tracking the indicator on a monthly basis. The indicator is additionally published on the Issuers website. ⁶	✓
When the expected impacts of different project components may not be reported separately, Issuers may use (and disclose) the attribution approach	The impact of Pepper Money’s projects is reported on an aggregated basis as there is only one category.	✓
Disclose the methodology used to determine the share of eligible project financing being applied to impact calculation	The entirety of the loan is applicable for output calculation, there is no pro-rated approach applicable.	✓

⁶ [Debt investors reporting, Reporting, Pepper Money](#)

Collaborating with experts if reporting on the estimated lifetime impacts and/or project economic life in years	There is no estimation of lifetime impacts nor is the project's economic life in years reported.	-
Assumptions and ex-post verification	The Issuer reports on actuals not using assumptions or projection estimates. The results of the ex-post verification have been included in the report. The Issuer discloses the number of borrowers benefiting for the period from June 9, 2022 to June 30, 2023.	✓
Report Period	The entirety of proceeds has been allocated to social assets. The Issuer confirms that no modification (removal or additional projects) of the portfolio is planned.	✓
Disbursement reporting	The Issuer reports on the number of loans disbursed and there are no stages involved.	-
Projects with partial eligibility	All projects are 100% eligible for financing.	✓

OPINION

Pepper Money follows HFIRSB's core principles and key recommendations. The Issuer provides transparency on the level of expected reporting as well as on the frequency, scope and duration aligned with best market practices. The Issuer has reported the bonds allocation on an annual basis. Pepper Money has disclosed the amount of proceeds allocated, target population, sector specific core indicator and social impact in line with the recommendations of the HFIRSB.

PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS

Use of Proceeds Allocation

Use of Proceeds allocation reporting is key to put the impacts into perspective with the number of investments allocated to the respective Use of Proceeds' category.

The Use of Proceeds allocation reporting occurred within one year from the issuance, after full allocation of the proceeds.

Proceeds allocated to eligible projects/assets

The proceeds' allocation is broken down at the project category level, by the type of beneficiary of the loan. The Issuer has provided details about the funds allocated by beneficiary type and the number of beneficiaries at allocation and observation date.

The allocation report section of the Sustainability Bond Allocation and Impact Report of Pepper Money aligns with best-market practices by providing information on:

- Net proceeds raised from each Pepper Money Social Bond.
- Any unallocated Pepper Money Social Bond proceeds and details of any temporary investments.


Impact Reporting Indicators

The table below presents an independent assessment of the Issuer’s report and disclosure on the output, outcome, and/or impact of projects/assets using impact indicators.

ELEMENT	ASSESSMENT
Relevance	<p>The impact indicator chosen by the Issuer for the bonds as following:</p> <p>a) Number of beneficiaries (underserved borrowers) receiving loan</p> <p>This indicator is quantitative and material to the Use of Proceeds category financed through its bonds and in line with the Suggested Impact Reporting metrics for Affordable Housing by the ICMA Harmonized Framework for Impact Report for Social Bonds. This aligns with best market practices.</p>
Data sourcing and methodologies of quantitative assessment	<p>For its impact indicator, the Issuer uses the Number of loan beneficiaries, in line with the core indicator proposed by the ICMA Harmonized Framework for Impact Reporting for Social Bonds.</p> <p>Pepper Money confirms to conducting extensive credit checks on all Applicant(s). External Equifax report are obtained for all parties to a loan. Upon applying, every applicant is allocated a distinct and exclusive customer ID. Internally, the Issuer utilizes this Customer ID to identify borrowers and assess loan characteristics, ensuring compliance with social criteria. The Issuer confirms that there are no risks associated with the reliability or misstatement of data.</p>
Baseline selection	<p>The impact data is not compared with any baseline.</p>
Scale and granularity	<p>The impact data is presented at the Use of Proceed category level for the indicator.</p>

High-level mapping of the impact indicators with the UN Sustainable Development Goals

Based on the project categories financed and refinanced by the bonds as disclosed in the Issuer’s Sustainability Bond Allocation and Impact Report, the impact indicator(s) adopted by Pepper Money for its Social Bond can be mapped to the following SDGs, according to the ICMA “A High -Level Mapping to the Sustainable Development Goals”⁷.

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<p>Australian owner-occupied mortgage loans to an underserved and undervalued population</p>	

OPINION

The allocation of the bond’s proceeds have been disclosed, with a detailed breakdown across different eligible beneficiary categories as proposed in the Framework and the Pepper Money’s Social Bond Framework has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculations methodologies and granularity reflecting best market practices. Further, the impact indicators used align with best market practices using ICMA’s recommended metrics, in the HFIRSB.

⁷ [ICMA’s Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds](#)

DISCLAIMER

1. Validity of the External Review (“External Review”): As long as no changes are undertaken by the Issuer to its Sustainability Bond Allocation and Impact Report as of September October 18, 2023.
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells, prepares, and issues External Reviews, on the basis of ICS’ proprietary methodology. In doing so, ICS adheres to standardized procedures designed to ensure consistent quality.
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The parent company of Institutional Shareholder Services (“ISS”), ISS HoldCo Inc., has since February 2021 been principally owned by Deutsche Börse AG (“DB”) with the remainder owned by Genstar Capital (“Genstar”) and ISS management. In April 2023, DB announced its intention to combine ISS with Qontigo, another entity controlled by DB, with General Atlantic to become the sole minority shareholder of the combined entity. The combination is expected to be completed in the third quarter of 2023. In July 2023, the stakes of Genstar and ISS management in ISS HoldCo Inc. were acquired by DB. The non-interference and similar policies implemented by ISS related to Genstar are no longer applicable and disclosures regarding Genstar and ISS management’s ownership of ISS are withdrawn.

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ANNEX 1: Methodology

Review of the post-issuance Reports

The ICS Report Review provides an assessment of labelled transactions reporting against international standards using ICS proprietary methodology. For more information, please visit: <https://www.issgovernance.com/file/publications/SPO-Report-Reviews.pdf>

High-level mapping to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method based on ICMA's Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, the extent to which the Issuers reporting and project categories contribute to related SDGs is identified.

ANNEX 2: Quality management processes

ISSUER'S RESPONSIBILITY

Issuer's responsibility was to provide information and documentation on:

- Sustainability Bond Allocation and Impact Report
- Social Bond Framework
- Proceeds Allocation
- Reporting Impact Indicators
- Methodologies, and assumptions for data gathering and calculation
- ESG Risk Management

ICS ESG'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ICS is part, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers

This independent Report Review has been conducted by following the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews, and its methodology, considering, when relevant, the ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The engagement with Issuer Name took place from July to October 2023.

ICS' BUSINESS PRACTICES

ICS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this Report Review

Companies turn to ISS Corporate Solutions (ICS) for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines), analyze the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent Report Review so that investors are as well informed as possible about the quality of the bond/loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For information on Report Review services, contact: SPOsales@isscorporatesolutions.com

Project team

Project lead

Medha Dalvi
Associate
ESG Consultant

Project support

Snehal Tiwari
Analyst
ESG Consultant

Project supervision

Marie-Bénédicte Beaudoin
Associate Director
Head of ISS ESG SPO Operations