

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Social Bond Framework

Pepper Money Limited
19 May 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Social bonds
Relevant standards	<ul style="list-style-type: none">• International Capital Market Association (ICMA) Social Bond Principles (SBP), updated as of June 2021
Scope of verification	<ul style="list-style-type: none">• Pepper Money Limited's Social Bond Framework (as of 26.04.2022)• Pepper Money Limited's Eligibility criteria (as of 26.04.2022)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as the Framework remains unchanged.

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SCOPE OF WORK

Pepper Money Limited (“the issuer” or “Pepper Money”) commissioned ISS ESG to assist with its social bonds by assessing three core elements to determine the sustainability quality of the instrument:

1. Social bonds link to Pepper Money’s sustainability strategy – drawing on Pepper Money’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Pepper Money’s Social Bond Framework (26.04.2022 version) – benchmarked against the International Capital Market Association’s (ICMA) Social Bond Principles (SBP).
3. The Eligibility criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 1.)

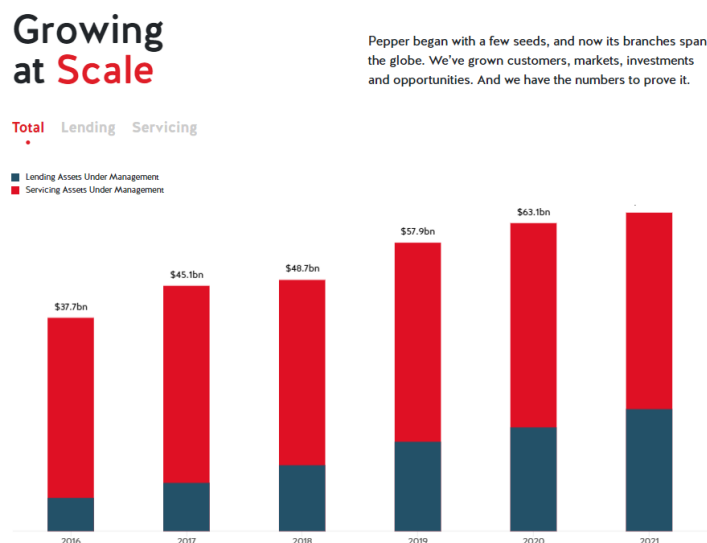
Pepper Money’s BUSINESS OVERVIEW

Pepper Money Limited (Pepper Money) is a Non-Bank Lender in the Australian and New Zealand Mortgage market and the Asset Finance market in Australia which was founded in 2000. It is classified in the Mortgage & Public Sector Finance industry, as per ISS ESG’s sector classification.

The three core segments which Pepper Money operates 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
- Servicing and other: independent loan servicing for mortgages and personal loans, and broker administration servicing.

Pepper Money was listed on the Australian Securities Exchange (ASX: PPM) in May 2021. As of 31 December 2021, Pepper Money had A\$17.0¹ billion in assets under management having served over 288,900 customers since 2014.



¹ Closing Total Asset Under Management as at 31 December 2021.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
<p>Part 1:</p> <p>Social bonds link to issuer's sustainability strategy</p>	<p>Pepper Money Limited (Pepper Money), listed on the Australian Securities Exchange (ASX: PPM), is an Australian-based non-bank specialist lender, offering a wide range of lending products including home loans, vehicle loans, equipment and asset finance loans, commercial real estate loans, and personal loans. The Use of Proceeds financed through these social bonds are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing social bonds is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>
<p>Part 2:</p> <p>Alignment with SBP</p>	<p>The issuer has defined a formal concept for its Social Bonds regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the SBP.</p>	<p>Aligned</p>
<p>Part 3:</p> <p>Sustainability quality of the Eligibility criteria</p>	<p>The overall sustainability quality of the Eligibility criteria in terms of sustainability benefits, risk avoidance and minimization is good based upon the ISS ESG assessment. The Social Bonds will (re-)finance eligible asset categories which include: Australian owner-occupied mortgage loans to an underserved and undervalued population.</p> <p>Those use of proceeds categories have a limited contribution to SDGs 10 'Reduced Inequalities'. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p>Positive</p>

² ISS ESG's evaluation is based on the Pepper Money Limited's Social Bond Framework and eligibility criteria (as of 26.04.2022), and on the ISS ESG Indicative Corporate Rating report (as of 03.05.2022).

ISS ESG SPO ASSESSMENT

PART I: SOCIAL BONDS LINK TO PEPPER MONEY'S SUSTAINABILITY STRATEGY

A. PEPPER MONEY'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY

1. Sustainability impacts of lending and other financial services/products
2. Customer and product responsibility
3. Employee relations and work environment
4. Statutory ESG-standards linked to the geographical allocation of the lending portfolio

ESG performance of the Issuer

Leveraging ISS ESG's Corporate Rating methodology, ISS ESG assessed the current sustainability performance of the issuer to be medium. Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part I B of the report.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of Pepper Money's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the company's production process. ISS ESG determined that, based on the information provided by the company, its overall business model has no net impact (contribution and/or obstruction) to the UN SDGs.

Breaches of international norms and ESG controversies

At issuer level

At the date of publication, ISS ESG has not identified any severe controversy in which the issuer would be involved.

At Industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Mortgage & Public Sector Finance industry are as follows: failure to pay fair share of taxes, failure to mitigate climate change impact, and failure to prevent deforestation/illegal logging.

B. CONSISTENCY OF SOCIAL BONDS WITH PEPPER MONEY'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

Pepper Money is on the path to continue to strengthen its Environmental, Social, and Governance (ESG) framework to provide a quantifiable guide for its employees and stakeholders on the standards Pepper Money seeks to uphold.

Pepper Money has engaged with internal and external stakeholders to inform its identification of ESG opportunities and risks that have the most potential to impact its ability to create sustainable value for shareholders and other stakeholders with referencing to Global Reporting Initiative (GRI). Strategic risks were considered alongside regulatory developments, peer reviews and industry trends.

Environmental Aspects

Green Transportation

- In 2014, Pepper Money started its Electric Vehicle financing program.

Green Bond

- Pepper Money assists its customers to achieve a lower carbon footprint through the financing of more energy efficient and low carbon homes via accredited Green Bonds.

Re-forestation

- In 2021, Pepper Money started a new environmental initiative for planting trees equivalent to over 7 hectares of protected forest in its operating market which includes Australia, New Zealand, and the Philippines. This will absorb 24 tonnes of CO₂ per hectare per year over the first 20 years of growth.

Social Aspects

Supporting customers

- Pepper Money is committed to helping customers who are experiencing financial difficulty wherever possible. Customers are encouraged to directly contact Pepper Money to discuss available options and Pepper Money will also proactively contact its customers who may be experiencing financial difficulty. Options including repayment holidays, postponement of payments, loan variations, and redraw of funds are available on a non-detrimental basis to customers experiencing financial stress.

Diversity and inclusion

- Pepper Money's Board has formally adopted a diversity policy, reflecting a commitment for accountability across the business to achieve diversity goals. To support its diverse nature, Pepper Money has launched Diversity and Inclusion strategic pillars called ACE (Allyship, Celebration and Education). These pillars define Pepper Money's diversity focus and will guide the business in future initiatives.

Governance Aspects

Risk management

- Pepper Money's has a risk management framework (RMF) in place which promotes increased risk awareness and strong risk culture to ensure that operations are consistent with the nature and level of risk that Pepper Money is willing to accept, both now and in line with any expected changes in the legislative and regulatory environment.
- Pepper Money's RMF supports the proactive management of operational risk and is aligned to the International Standard ISO 31000: 2018 'Risk Management Guidelines', which defines risk as 'the effect of uncertainty on objectives.'

Data Privacy

- Pepper Money's has a Privacy and Credit Reporting Policy to protect customer personal information. Pepper Money will only use personal information collected about a customer for the purposes for which it has been provided, where Pepper Money has customer consent to do so, or as otherwise required or authorised by law.

Rationale for issuance

Pepper Money has a track record in the sustainable finance market. In 2018, Pepper Money completed its inaugural Green Bond issuance, with separate Eur 110 million (A\$179m) and A\$75m tranches, totaling A\$254 million of residential mortgage-backed securities (RMBS) backed by energy-efficient homes.

For this Social Bond program, the aim is to raise funds for new and existing projects with positive social outcomes, and support Pepper Money's business strategy and vision to provide clear and sustainable social benefits. The Use of Proceeds of any Pepper Money Social Bond are expected to contribute to access to essential financial services for underserved and undervalued Australians.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this social bond with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Mortgage & Public Sector Finance industry. Key ESG industry challenges are issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Australian owner-occupied mortgage loans³ to an underserved and undervalued population	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this bond are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Social Bonds is clearly described by the issuer.*

³ Only loans advanced in relation to owner-occupied principal residential properties.

PART II: ALIGNMENT WITH SOCIAL BOND PRINCIPLES

1. Use of Proceeds

FROM ISSUER'S FRAMEWORK

Objective

The positive social impact of a Pepper Money Eligible Social Project derives from its direct contribution to providing access to financial services and socio-economic advancement and empowerment through equitable access to and control over assets, by using proprietary systems to make flexible loan solutions available to applicants who are not served by traditional banks.

Target population

Through Eligible Social Projects, Pepper Money is seeking to achieve positive social outcomes for a target population of Australians that lack access to essential financial services and experience inequitable access to and lack of control over assets. Pepper Money directly aims to address the positive social outcome of home ownership for borrowers who may have complexity in their income streams, gaps in their loan documentation or have adverse credit history. Traditionally, this cohort has been underserved by banks that rely on inflexible algorithmic loan application processing.

Pepper Money can provide financing solutions across all life stages because it employs a tailored approach that considers an individual's broader circumstances. Pepper Money wants to help borrowers find the right lending solution to support them in meeting their financial needs. For example, in 2021, Pepper Money was able to write a mortgage or provide a personal loan to around 30,000 self-employed and small businesses customers⁴ – cohorts that typically struggle to access finance from traditional banks in Australia.

Self-employed borrowers

The way people work in Australia has substantially changed over the last 20 years. More people are working for themselves, doing more than one job, or working different sorts of hours.⁵ In fact, real working life in Australia is varied - 17% of Australians are self-employed, with around 1 million being independent contractors, or nearly a third working part time.⁶

Research shows that 26% of Australians that were turned down for a loan were declined because of employment status.⁷

⁴ Pepper Money Limited, Annual Report 2021, <https://www.pepper.com.au/globalassets/au-pepper/shareholders/cy2021-annual-report.pdf>

⁵ Australian Bureau of Statistics, Labour Force Statistics, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Mar%202017?OpenDocument>

⁶ Self-Employed Australia, July 2022, Independent Contractors: How Many in Australia?, <https://selfemployedaustralia.com.au/independent-contractors-how-many/independent-contractors-how-many-in-australia>

⁷ Pepper, December 7, 2017, The lost Aussies: 3.6 million locked out of financial system, <https://www.pepper.com.au/about/press-release/3.6-million-locked-out-of-the-financial-system>

Given self-employed workers don't earn a set salary in the conventional sense, it can be more of a challenge for them to prove their ability to repay a mortgage. For those borrowers who are unable to meet a traditional bank's preference for full documentation loans, Pepper Money offers alternative documentation loans (Alt Doc), individually assessing each loan application thoroughly, carrying out just as much due diligence with its Alt Doc loans as it does with its Full Doc loans. It is not about providing less or a low amount of income documentation, but more about providing alternative documentation for evidence of income.

Credit impaired borrowers

It is estimated that up to one in five Australians have had marks on their credit history.⁸ From a change in circumstances through to financial hardship, it can sometimes be difficult to get finances back on track. Many people with bad credit can be reluctant to apply for a home loan as they may become misinformed and told they won't be able to receive a loan. This can be made trickier when traditional banks make finance harder to come by after a default or blip on a customer's credit history.

Pepper Money has a range of near prime and specialist home loans specifically designed for people who have these sorts of problems.

Eligibility criteria

SBP Category	Eligible	Pepper Money Eligible Social Projects	Social Targets
Access to essential services – financing and financial services	to – and	<p>Australian owner-occupied mortgage loans³ to an underserved and undervalued population, typically made up of applicants:</p> <p>with complex income situations such as self-employed (i.e., sole traders operating under an Australian Business Number) who are unable to provide the necessary financial information (for example, tax returns or a minimum of two years' worth of financial statements) for income verification purposes traditionally required by banks in Australia;</p> <p>who are credit impaired (any in the near prime or specialist cohort, including prior bankrupts);</p>	<p>By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average.</p> <p>By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status</p> <p>Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard</p>

⁸ Australia Lending Centre, Bad Credit Loans, <https://www.australianlendingcentre.com.au/bad-credit-loans/>

Socioeconomic advancement and empowerment - equitable access to and control over assets		By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.
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The eligibility criteria under the SBP may change/expand over time.

Exclusions

Pepper Money will not knowingly be involved in financing any of the following activities through the proceeds of any Social Bond:

- gambling, alcohol, smoking or drug related activities;
- weapons of warfare;
- predatory lending;
- fossil fuel production; or
- inhumane treatment of animals.

Any Social Bond proceeds will not be allocated to financing any projects or organisations that are involved in major ESG controversies as assessed by Pepper Money’s chosen Social Bond assurance provider.

Pepper Money’s current home lending criteria include a maximum loan principal of A\$2.5m⁹, and it is anticipated that the maximum principal amount of loans sold to support the initial issuance of Social Bonds will be A\$1.25m. Further, Pepper Money will ensure that only loans advanced in relation to owner-occupied principal residential properties will be earmarked to support an issuance of Social Bonds – none will support the financing of investment properties or “second” homes.

Pepper Money is committed to using the proceeds of any Social Bond offering on Eligible Social Projects within a maximum three-year timeframe.

Pepper Money’s policies, systems and processes ensures each loan is individually tracked from application and verifies all information relating to the asset through various independent and arm’s length providers as part of the underwriting process. On an on-going basis, Pepper Money monitors these loans through a suite of internal and external reporting.

Opinion: ISS ESG considers that the Use of Proceeds description provided in Pepper Money’s Social Bond Framework is aligned with the ICMA’s Social Bond Principles. The issuer provides a quantitative and qualitative analysis of the social contribution of the project category and defines exclusion criteria for harmful project categories, in line with best market practice.

⁹ Pepper Near Prime mortgage maximum loan amount A\$2,500,000 up to 65% Loan-to-Value Ratio; Pepper Money Specialist mortgage maximum loan amount A\$2,500,000.

2. Process for Project Evaluation and Selection

FROM ISSUER'S FRAMEWORK

Pepper Money has established a Green, Social & Sustainability Bonds Investment Forum (GSSBIF), with senior representation from different business areas (Lending, Treasury, Finance, Risk, and Human Resources) of Pepper Money to provide input on green, social, sustainability, and sustainability-linked investment related matters.

The GSSBIF has oversight of the Social Bond Framework and responsibility for the:

- addition of new eligible categories and the selection of eligible assets;
- review of potential Social Projects; and
- final approval of eligible Social Projects.

Additional guidance is provided by a specialist Second-Party Opinion (SPO) service for Social Bonds.

A high-level overview of Pepper Money's process for the evaluation and selection of eligible assets is set out below.

Step 1.	Pepper Money's funding and analytics teams identify a pool of existing Pepper Money mortgages for earmarking against Pepper Money's proposed Social Bond proceeds;
Step 2.	Assets are reviewed for compliance with the Social Bond Framework;
Step 3.	The GSSBIF discusses and considers eligible assets that may be included in a Pepper Money Social Bond portfolio;
Step 4.	Tracking and reporting on eligible assets and management of Social Bond proceeds are established. These assets are then approved for inclusion in the Social Project by the GSSBIF;
Step 5.	Updated opinion on the Social Bond Framework provided by an independent SPO service;
Step 6.	Pre-issuance review provided by an independent SPO service, including assessment of the asset pool;
Step 7.	Pepper Money issues a Social Bond; and
Step 8.	Annual Social Bond Review is completed at calendar year end, including independent verification for all outstanding Pepper Money Social Bonds.

Management of risk

While the risk associated with Pepper Money's Social Bond program is deemed to be low, Pepper Money is committed to the proactive management of risk, with specific reference to ESG. Pepper Money has developed policies and procedures for identifying, assessing, and managing risk in its financial activities. At Pepper Money, ESG is a subset of operational risk, regulatory and compliance risk, strategic risk, and reputational and conduct risk.

Pepper Money attempts to minimise risk by providing a clear Social Bond Framework which is overseen by the GSSBIF. If any risks arise relating to the Eligible Social Project, the GSSBIF will take appropriate action according to Pepper Money policies. The GSSBIF ensures that only eligible assets

that follow strict eligibility criteria are included in each Social Bond and that project costs are adequately covered.

Opinion: ISS ESG considers the Process for Project Evaluation and Selection description provided in Pepper Money's Social Bond Framework is aligned with the ICMA's Social Bond Principles. The issuer involves various relevant stakeholders in this process, clearly defines responsibilities in the process for project evaluation and selection which is in line with best market practice.

3. Management of Proceeds

FROM ISSUER'S FRAMEWORK

Through its securitisation program, Pepper Money will group existing Pepper Money originated owner-occupied mortgage loans together that fit the Social Bond Framework eligibility criteria and fund them as social assets immediately after raising new funds via each new Social Bond in the public debt markets.

In the circumstance that proceeds of any Pepper Money Social Bond issuance are not immediately and fully applied directly to finance or refinance eligible mortgage lending, those proceeds will be invested in cash according to Pepper Money's internal investment policies. This is, however, considered to be remote given the nature of Pepper Money's securitisation program.

Pepper Money's funding and analytics teams will track, and report eligible assets earmarked for inclusion in a Pepper Money Social Bond eligible portfolio via internal systems. These systems will be used to verify monthly whether the net proceeds of all Pepper Money Social Bonds have been fully allocated against eligible assets. It is Pepper Money's intention to fully allocate the proceeds of any Social Bond immediately following each bond's settlement. In the unlikely event that this does not occur, Pepper Money is committed to allocating any outstanding proceeds to an eligible Social Project within three years of each bond's issue.

Pepper Money's internal systems are updated monthly and track information on all Social Bond eligible assets earmarked against each Pepper Money Social Bond.

Opinion: ISS ESG finds that Management of Proceeds described in Pepper Money's Social Bond Framework is aligned with the ICMA's Social Bond Principles. The issuer discloses the nature of temporary investments, in line with best market practice.

4. Reporting

FROM ISSUER'S FRAMEWORK

It is Pepper Money's intention to fully allocate the proceeds of any Social Bond immediately following each bond's settlement. In this context, Pepper Money is committed to creating, and keeping up-to-date information on the use of proceeds to be renewed annually and in line with market standards until each Social Bond matures, and on a timely basis in the case of material developments. In the unlikely circumstance that bond proceeds remain unallocated, Pepper Money will make, and keep readily available up-to-date information on the use of proceeds to be renewed annually until full allocation.

External reporting

Reporting, to be published on the Pepper Money website at www.pepper.com.au/investors/debt-investors, will include:

- SPO – to be prepared by a third-party SPO service and made available from May 2022
- Annual review – to be prepared by a third-party provider and made available from 2023

SPO

For all Pepper Money Social Bonds issued, Pepper Money will procure an independent SPO service to provide investors with assurance that any issuance under this Framework complies with this Framework and the SBP. These reports will be made available on the Pepper Money website at www.pepper.com.au/investors/debt-investors

Annual review

In the future, Pepper Money will publish on an annual basis, an independent review for all outstanding Pepper Money Social Bonds. These reports will be made available on the Pepper Money website at www.pepper.com.au/investors/debt-investors.

The GSSBIF will review and approve each annual Pepper Money Social Bond report prior to it being posted to the Pepper Money website.

This reporting will typically include:

- Net proceeds raised from each Pepper Money Social Bond;
- Aggregate of funds drawn against each Pepper Money Social Bond eligible portfolio;
- Any unallocated Pepper Money Social Bond proceeds and details of any temporary investments; and
- Confirmation that the use of proceeds complies with the Social Bond Framework.

Internal reporting

Allocation reporting and stratification analysis

Pepper Money will monitor the use of proceeds to ensure they remain allocated to the eligible assets and will maintain and update internal reporting which will include the following details on an aggregate basis:

- the proceeds of each Social Bond issuance; and,
- the drawn funding against eligible assets included within the earmarked Social Bond portfolios.

From 2023, Pepper Money intends to publish on its website, www.pepper.com.au/investors/debt-investors, an annual report on the allocation and impact of Social Bond proceeds and portfolio stratification.

Impact reporting

Pepper Money is aligned to the guidelines for impact reporting as set out by the SBP, as amended from time to time.

The disclosure of information in the Annual Review related to the use of proceeds, impact reporting, borrowers and assets financed will be made subject to Pepper Money's confidentiality obligations and the availability of information in the preparation of the annual Pepper Money Social Bond review.

Where possible, quantitative and/or qualitative reporting of the social impacts resulting from loans financed by Pepper Money's Social Bond proceeds will include the following impact indicators:

- number of loans included in portfolio;
- number of beneficiaries;
- aggregate principal balance of loans included in portfolio;
- average principal balance of loans included in portfolio;
- smallest/largest loan balance in portfolio;
- average property value securing loans included in portfolio;
- weighted average interest rate in portfolio;
- proportion of self-employed borrowers;
- breakdown of loans in portfolio by location of property, loan to value ratio and principal outstanding at the reporting date; and
- confirmation that all loans are secured by owner-occupied residential properties (and none of the loans are for investment purposes)

Subject to the availability of information, Pepper Money will utilise the impact reporting guidelines detailed in ICMA's "[Working Towards a Harmonized Framework for Impact Reporting for Social Bonds](#)".

***Opinion:** ISS ESG finds that the reporting proposed in Pepper Money's Social Bond Framework is aligned with the ICMA's Social Bond Principles. The level, information reported, frequency, scope, and duration of the issuer's allocation reporting is clearly defined. In addition, the issuer is transparent on the level, information reported, frequency and, scope of its impact reporting, in line with best market practice.*

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE


A. CONTRIBUTION OF THE SOCIAL BONDS TO THE UN SDGs

Based on the assessment of the sustainability quality of the Social Bonds Eligibility criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Pepper Money’s Social Bonds to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 1 for methodology):



Each of the Social Bond’s Use of Proceeds categories has been assessed for its contribution to, or obstruction of the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Australian owner-occupied mortgage loans to an underserved and undervalued population</p>	<p>Limited Contribution¹⁰</p>	

¹⁰ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer’s product and service portfolio on the SDGs.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

Australian owner-occupied mortgage loans above to an underserved and undervalued population

The table below presents the findings of an ISS ESG assessment of the Eligibility criteria against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Inclusion

- ✓ The issuer has policies in place to promote inclusion and non-discriminatory access. The owner-occupied mortgage loans the issuer gives target an underserved and undervalued borrower population. Borrowers specifically targeted self-employed workers, part-time workers, borrowers with alternative documentation, borrowers facing bankruptcy and borrowers facing credit impairment.

Information security

- ✓ The issuer has policies in place to ensure that information is managed in a secure manner, including information that is outsourced for data processing purposes. The issuer's multiple layered security solutions and controls system are designed to protect sensitive business and customer information and are ISO 27001 certified. For outsourced data hosting arrangements, the issuer has established procedures and gating mechanisms to conduct thorough security assessments using proforma questionnaires and risk assessment frameworks prior to new vendors solutions being on-boarded. The issuer also continues to monitor vendor commitments to security, controls, and attestation evidence for the life of all third-party hosting and data protection agreements.

Responsible treatment of customers with debt repayment problems

- ✓ The issuer has policies in place to prevent client debt repayment problems. More specifically, it uses income acceptance and serviceability rules to assess clients' repayment ability before granting the loans. The issuer also takes initiative to pro-actively prevent client repayment difficulties through thorough up-front assessments. In circumstances of borrowers experiencing genuine repayment difficulty, the issuer provides hardship assistance to borrowers through a dedicated team.

- ✓ The issuer has processes (Mortgage Enforcement Process) in place when the debt falls in the arrears if all other efforts to recover a debt have failed, and to ensure that clients do not face unfavorable conditions as a result of the sale of bad debt to third parties as an ultimate resort. Whilst most of the bad debt it sells are those where borrowers are already uncontactable or uncooperative, it has a policy to exclude the sale of debt for those borrowers are in vulnerable circumstances, such as borrowers in an unresolved complaint, dispute, or hardship application. The issuer only sells debt to third parties as a last resort solution, when debt cannot be collected through normal practices, hence those borrowers who are regularly paying back their loans as per original loan agreement will not be disadvantaged by sales of debt. Currently, the issuer does not sell mortgage debt and all foreclosure activity related to mortgage is managed solely by the issuer.

- ✓ The issuer has policies in place to ensure that sustainable solutions are offered to customers with debt repayment problems. More specifically, the issuer has a “Hardship Team”, which offers solutions to customers with debt repayment problems, including Hardship Arrangement, Arrears Capitalisation, Hardship Variation or Increased Repayment Plans.

Responsible marketing

- ✓ The issuer has policies in place to ensure marketing practices is conducted in a responsible manner. The issuer ensures that information shared with customers is easy to understand, and that customers do not receive anything that is confusing, misleading or incorrect. The issuer also ensures that customers receive all relevant supporting information about interest rates, terms, conditions and disclaimers, and that it protects customers’ interests via consent, privacy and opt outs. The issuer also has policies in place to ensure that it will only market loans to customers who are suited to the relevant products, so that it acts in the customers’ best interest.

Responsible sales practices

- ✓ The issuer predominantly sells loans through external brokers, but also sell some loans via its own staff. The issuer provides comprehensive training programs to ensure its staff are familiar and up-to-date with its latest methodologies. The issuer makes sure that its in-house sales employees’ performance is determined by considering a variety of factors including risk & compliance, conversion, applications, settlements, behaviours, alignment to corporate values, and quality of activity in market instead of directly linked to sales volumes. In addition, the issuer has a credit system that automatically grades a customer for their best fit product, so that sales representatives are unable to significantly influence customers’ choice of products. The issuer’s external network of brokers adheres to the ‘ASIC RG 273 Mortgage brokers: Best interests duty’ legislation of the Australian Securities and Investments Commission, which requires best practices such as banning campaign and volume-based commissions and payments.

DISCLAIMER

1. Validity of the SPO: As long as the Framework remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to standardized procedures to ensure consistent quality of responsibility research worldwide. In addition, we provide Second Party Opinion (SPO) on bonds based on data provided by the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them, and the use thereof shall be excluded.
4. All statements of opinion and value judgments given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and creditworthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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ANNEX 1: Methodology

ISS ESG Social KPIs

The ISS ESG Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Pepper Money’s social bonds.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Pepper Money (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association 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, ISS ESG identifies the extent to which Pepper Money’s social bonds contributes to related SDGs.

ANNEX 2: Quality management processes

SCOPE

Pepper Money commissioned ISS ESG to compile a social bonds SPO. The Second Party Opinion process includes verifying whether the Social Bond Framework aligns with the ICMA Social Bond Principles and to assess the sustainability credentials of its social bonds, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Social Bond Principles
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the issuer

ISSUER'S RESPONSIBILITY

Pepper Money's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the framework level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG 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.

ISS ESG has conducted this independent Second Party Opinion of the social bonds to be issued by Pepper Money based on ISS ESG methodology and in line with the ICMA Social Bond Principles.

The engagement with Pepper Money took place in April to May 2022

ISS ESG'S BUSINESS PRACTICES

ISS 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 behaviour 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 ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO 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 more information on SPO services, please contact: SPOsales@isscorporatesolutions.com

For more information on this specific social bonds SPO, please contact: SPOOperations@iss-esg.com

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