

REPORT REVIEW

Pepper Money Sustainability Bond Allocation and Impact Report

4 October 2024

VERIFICATION PARAMETERS

Type(s) of reporting

- Sustainability Bond Allocation and Impact Report

Relevant standard(s)

- Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB), administered by the International Capital Market Association (ICMA) (as of June 2023)

Scope of verification

- Pepper Money's Sustainability Bond Allocation and Impact Report (as of October 1, 2024)
- Pepper Money's Social Bond Framework (as of April 26, 2022)
- Bond identification: ISIN, maturity date and issuance amounts are displayed in the appendix

Lifecycle

- Post-issuance verification
- 1st Post-issuance verification as of Oct. 23, 2023 ([ISS-Corporate weblink](#))

Validity

- As long as no changes are undertaken by the Issuer to its Sustainability Bond Allocation and Impact Report as of October 1, 2024

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SCOPE OF WORK

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

1. The alignment of Pepper Money’s Sustainability Bond Allocation and Impact Report with the commitments set forth in Pepper Money’s Social Bond Framework (as of April 26, 2022).²
2. Pepper Money’s Sustainability Bond Allocation and Impact Report, benchmarked against Harmonized Framework for Impact Reporting for Social Bonds (HFIRSB), updated June 2023, 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’s Sustainability Bond Allocation and Impact Report. A review of the use of proceeds allocation and impact reporting is solely conducted against the core principles and recommendations of ICMA’s standards (Social Bond Principles) 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. 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 May 19, 2022.

ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION
<p>Part I</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 II</p> <p>Alignment with the Harmonized Framework for Impact Reporting for Social Bonds (HFIRSB).</p>	<p>The Sustainability Bond Allocation and Impact Report is in line with the HFIRSB. The Issuer follows core principles and, where applicable, key recommendations.</p> <p>The Issuer has reported the bond allocation on an annual basis and disclosed the amount of proceeds allocated, target population, sector-specific core indicators and social impact, in line with the recommendations of the HFIRSB.</p>	<p>Aligned</p>
<p>Part III</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 FRAMEWORK³

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 and best market practices.

SOCIAL BOND PRINCIPLES	OPINION	ALIGNMENT WITH COMMITMENT
<p>1. Use of Proceeds</p>	<p>Pepper Money confirms to follow the Use of Proceeds’ description provided by its Social Bond Framework. The report is in line with the initial commitments set in the Framework: alignment with the project category defined by the SBP, defined and transparent criteria for eligible projects and description of the expected environmental and/or social benefits of the project category.</p> <p>The proceeds have been used to (re)finance the following social category: Access to Essential Services and Socioeconomic Advancement and Empowerment in accordance with the eligibility criteria defined in the Framework. The Issuer’s social category aligns with the project category and is in accordance with the eligibility criteria set in Pepper Money’s Social Bond Framework. Social benefits at the project level are described and quantified.</p> <p>Pepper Money has raised AUD 300 million, and 100% of proceeds were allocated in the first year and reported in the last allocation and impact report. The Issuer committed the maximum amount of each loan in the pool, which was AUD 1.25 million at issuance. Further, Pepper Money³ 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</p>	<p style="text-align: center;">✓</p>

³Pepper Money’s Social Bond Framework was assessed as aligned with the SBP (as of June 2021) as of May 19, 2022.

	<p>investment properties or “second homes” have not been financed.</p> <p>The Issuer does not finance any 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>2. Process for Project Evaluation and Selection</p>	<p>Pepper Money confirms to follow the Process for Project Evaluation and Selection description provided by its Social Bond Framework. The report is in line with the initial commitments set in the Framework: a documented process to determine whether projects fit within the defined category, identifying and managing potential ESG risks associated with the project, and information on responsibilities, accountability and stakeholders involved in the process.</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 category are identified and managed appropriately.</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>3. Management of Proceeds</p>	<p>Pepper Money confirms to follow the Process for Management of Proceeds description provided by its Social Bond Framework. The report is in line with the initial commitments set in the Framework: proceeds are tracked and segregated by the Issuer in an appropriate manner.</p> <p>The proceeds collected equal the amount allocated to eligible projects, with no exceptions. The proceeds are tracked appropriately and attested in a formal internal process. Additionally, the Issuer confirms that 100% of the proceeds have been allocated.</p>	
<p>4. Reporting</p>	<p>Pepper Money’s Sustainability Bond Allocation and Impact Report is consistent with the Reporting description provided by its Social Bond Framework.</p>	

	<p>The report is in line with the initial commitments set in the Framework: level, information reported, frequency, scope and duration of the allocation and impact reporting.</p> <p>The “Allocation Reporting” and “Impact Reporting” sections 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 website.</p> <p><i>Further analysis of this section is available in Part III of this report.</i></p>	
<p>5. Verification</p>	<p>ISS-Corporate provided a second-party opinion on Pepper Money’s Social Bond Framework on May 19, 2022.</p>	

PART II: ASSESSMENT AGAINST THE HARMONIZED FRAMEWORK FOR IMPACT REPORTING FOR SOCIAL BONDS

Reporting is a core component of the Social Bond Principles and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of annual reporting. Social bond issuers are required to report on both the use of social bond proceeds and the social impacts at least annually until full allocation. The HFIRSB has been chosen as benchmark for this analysis as it represents the most widely adopted standard.

The table below evaluates Pepper Money’s Sustainability Bond Allocation and Impact Report against the HFIRSB.

CORE PRINCIPLES		
ICMA HFIRSB	Sustainability Bond Allocation and Impact Report	ASSESSMENT
Reporting on an annual basis	This is the second Sustainability Bond Allocation and Impact Report published by Pepper Money. The Issuer has reported within one year of its last reporting and all proceeds have been fully allocated. Total social notes subscribed at issuance cutoff date (March 31, 2022) were AUD 300 million. After the first year of being paid down, as of June 30, 2023, total social notes subscribed were AUD 170 million. In its second year since issuance, as of June 30, 2024, the total notes subscribed were AUD 106 million. The report will be available on Pepper Money’s website .	✓
Formal internal process to track proceeds	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 in the Framework and the Social Bond Principles, Pepper Money has allocated the net proceeds of the bond issued under this Framework to existing eligible assets within the category: Australian owner-occupied mortgage loans to an underserved and undervalued population. The Issuer reports on the notes paid down based on the cash flows generated by the pool of residential mortgage loans.	✓

<p>Target Population(s) identified</p>	<p>The Issuer defined targeted populations for the respective project category as Australian owner-occupied mortgage loans to an underserved and undervalued population. This includes borrowers with complex income situations, credit impairments or previous bankruptcies.⁴</p> <p>The Issuer refers to definitions for targeted populations in its Framework and Sustainability Bond Allocation and Impact Report.</p>	<p>✓</p>
<p>Output, outcome and/or impact of projects at project or portfolio level</p>	<p>The Issuer referred to existing indicator lists and catalogs from Annex III of the HFIRSB (i.e., Number of beneficiaries: During the issuance of Pepper Social Trust No. 1 in 2022, 668 underserved borrowers were served and they continue to assist 271 current borrowers).</p> <p>A detailed analysis of impact indicator is available in Part III of this report.</p>	<p>✓</p>
<p>Illustrating of the social impacts</p>	<p>The assessment and measurement of the impacts generated by Pepper Money’s social bonds covered the following areas:</p> <ul style="list-style-type: none"> ▪ Number of beneficiaries (underserved borrowers) receiving a loan 	<p>✓</p>
<p>Prorated share of the overall impact results of the projects or portfolio of projects</p>	<p>The Issuer does not report the prorated share of the overall impact results of the projects or portfolio of projects as there is only one category financed.</p>	<p>✓</p>

⁴ “Complex income situations” refers to underserved and undervalued populations, typically made up of applicants with who are self-employed (i.e., sole traders operating under an Australian Business Number) or unable to provide the necessary financial information (e.g., tax returns or a minimum of two years’ worth of financial statements) for income verification purposes traditionally required by banks in Australia.

“Credit impairments” refers to a situation where an applicant has a less-than-ideal credit history or credit score, fails to qualify for a major bank product due to minor issues, has suffered a life event resulting in a significant credit event or has a limited history of self-employment.

Bankruptcy is a legal status that indicates an applicant is unable to repay debts and has been formally declared bankrupt by a court. Pepper Money undertakes extensive credit checks on all applicants and obtains Equifax reports for all parties to a loan. Where past bankruptcy has occurred, the Equifax report is used to evidence discharge.

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 actual absolute output indicators and does not disclose qualitative impact indicators. The Issuer confirms regularly tracking these indicators on a monthly basis. These monthly reports are regularly published on Pepper Money’s website.	✓
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 prorated approach applicable.	✓
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 without using assumptions or projection estimates. The results of the ex-post verification have been verified by a third party and included in the report. The Issuer discloses the number of borrowers benefits for the period from June 9, 2022, to June 30, 2024.	✓
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 except for the loan repayments of the borrowers.	✓

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 the HFIRSB's core principles and key recommendations. The Issuer provides transparency on the level of expected reporting and 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 indicators 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 putting 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 of the issuance, after full allocation of the proceeds.

This is the second year of allocation reporting and the outstanding allocation of 35.39% in 2024 compares with 56.87% in 2023. The Use of Proceeds allocation reporting occurred within the regular annual cycle of the issuance.

Proceeds allocated to eligible projects/assets

The proceeds' allocation is broken down at the project category level, by 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 report provides information about projects removed from the allocation register due to repayment of borrowers.

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
- Aggregate of funds drawn against each Pepper Money social bond eligible portfolio



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
<p>Relevance</p>	<p>The impact indicator chosen by the Issuer for this bond is the following:</p> <ul style="list-style-type: none"> ▪ Number of beneficiaries (underserved borrowers) receiving a loan <p>This indicator is qualitative and material to the Use of Proceeds category financed through this bond and in line with the suggested impact reporting metrics for green building projects by the HFIRSB. This aligns with best market practices.</p>
<p>Data sourcing and methodologies of quantitative assessment</p>	<p>For its impact indicator(s), the Issuer uses the number of loan beneficiaries, in line with the core indicator proposed by the HFIRSB.</p> <p>Pepper Money confirms that it conducts extensive credit checks on all applicants. External Equifax reports 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 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>
<p>Baseline selection</p>	<p>The impact data is not compared with any baseline.</p>
<p>Scale and granularity</p>	<p>The impact data is presented at the Use of Proceeds category level for the indicator.</p>

High-level mapping of the impact indicators with the U.N. 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 adopted by Pepper Money for its social bond can be mapped to the following SDGs, according to ISS ESG SDG Solutions (SDGA), a proprietary methodology designed to assess the impact of an issuer’s product or services on the SDGs.

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 has been disclosed, with a detailed breakdown across different eligible asset category, as proposed in the Framework. The Sustainability Bond Allocation and Impact Report has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculation methodologies and granularity, reflecting best market practices. In addition, the impact indicators used align with best market practices using ICMA’s recommended metrics found in the HFIRSB.

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 month October 1, 2024.
2. ISS Corporate Solutions, Inc. (“ISS-Corporate”), a wholly owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells, prepares, and issues External Reviews, on the basis of ISS-Corporate’s proprietary methodology. In doing so, ISS-Corporate adheres to standardized procedures designed to ensure consistent quality.
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ANNEX 1: Methodology

Review of the post-issuance Reports

The ISS-Corporate Report Review provides an assessment of labeled transactions reporting against international standards using ISS-Corporate's proprietary [methodology](#).

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 the Issuer's reporting and project categories contribute to related SDGs is identified.

ANNEX 2: Quality management processes

ISSUER'S RESPONSIBILITY

The 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

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, which ISS-Corporate is part of, 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 Pepper Money took place from July to October 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group 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.

APPENDIX: Bond identification

ISIN	MATURITY DATE	VOLUME (IN AUD)
AU3FN0068565	September 2063	80,000,000
AU3FN0068573	September 2063	145,000,000
AU3FN0068581	September 2063	43,200,000
AU3FN0068599	September 2063	11,100,000
AU3FN0068607	September 2063	7,500,000
AU3FN0068615	September 2063	5,400,000
AU3FN0068623	September 2063	2,400,000
AU3FN0068631	September 2063	2,400,000
Not Applicable (Class G1 Notes)	September 2063	1,500,000
Not Applicable (Class G2 Notes)	September 2063	1,500,000

About this Report Review

Companies turn to ISS-Corporate 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.

ISS-Corporate assesses the alignment of the Issuer's report with external principles (e.g., the Green/Social Bond Principles), analyzes the alignment of the Issuer's report against the commitments in the respective Framework, and analyzes the disclosure of proceeds allocation, data source and calculation methodologies of the reporting indicators against best market practices. Following these guidelines, we draw up an independent Report Review so investors are as well-informed as possible about the proceeds allocation and the impact of the sustainability finance instrument(s).

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

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