

Pepper Money Limited

Type of Engagement: Annual Review

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Engagement Team:

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Introduction

Pepper Money Limited (“Pepper” or the “Issuer”) issued green bonds (the “Green Bonds”) in December 2018 (PRS22), February 2019 (PRS23), May 2019 (PRS24), November 2019 (PRS25) and March 2022 (Pepper Prime 2022-1), aimed at financing and refinancing green mortgages. In May 2023, Pepper engaged Sustainalytics to review the projects funded through the issued Green Bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Pepper Green Bond Framework (the “Framework”).

Pepper issued bonds PRS22 and PRS23 under the Pepper Green Bond Framework dated October 2018, bonds PRS24 and PRS25 under an updated Pepper Green Bond Framework dated January 1, 2019 and the bond Pepper Prime 2022-1 under the updated Pepper Green Bond Framework dated February 24, 2022¹. Sustainalytics provided Second Party-Opinion on these Frameworks in 2018 and update to it in 2019 and 2022.².

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2018, 2019 and 2022 based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1: Use of Proceeds, Eligibility Criteria and associated KPIs

Use of Proceeds	Bonds	Eligibility Criteria	KPIs
Green Residential Buildings	Pepper Prime 2022 -1	<p><i>February 24, 2022</i></p> <p>Australian green residential buildings that meet the following respective local construction standards:</p> <ol style="list-style-type: none"> 1. New South Wales - houses approved under the Building Sustainability Index (BASIX)³ requirements in Sydney Metropolitan Local Government Areas after 1 July 2004 are deemed to be eligible, and houses in all areas of NSW are deemed to be eligible where approved after 1 July 2005. BASIX was expanded to also 	<ul style="list-style-type: none"> • Quantitative performance measurement of greenhouse gases reduced

¹ The February 24, 2022 Framework was a minor update to the January 2019 Framework, with use of proceeds remaining the same. 2022 Framework is available on Pepper Money Limited’s website at: <https://www.peppermoney.com.au/about/debt-investors>.

² The Second Party-Opinion provided by Sustainalytics is available on Pepper Money Limited’s website at: <https://www.peppermoney.com.au/about/debt-investors>

³ Implemented under the Environmental Planning and Assessment Act 1979 (NSW) and part of the NSW development application process, the Building Sustainability Index (BASIX) aims to deliver effective water and greenhouse gas reductions across NSW.

		<p>include villas, townhouses and residential flat buildings in NSW from 1 October 2005. BASIX Energy 40 proxy for apartments will be deemed eligible.</p> <ol style="list-style-type: none"> 2. Victoria - houses and apartments approved under NCC BCA 2011⁴, as introduced on 1 May 2011, where construction was completed after 1 January 2013 are deemed to be eligible (6-star NatHERS⁵ provision effective); 3. Tasmania - houses and apartments approved under NCC BCA 2013, as introduced on 1 May 2013, where construction was completed after 1 January 2015, are deemed to be eligible; 4. Queensland - houses and apartments approved under the NCC BCA 2010, where construction was completed after 1 January 2012, are deemed to be eligible (6-star NatHERS equivalent); 5. South Australia - houses and apartments approved under the NCC BCA 2010, where construction was completed after 1 January 2012, are deemed to be eligible (6-star NatHERS provision effective); and, 6. Western Australia, Australian Capital Territory, and the Northern Territory - deemed to be eligible by satisfying the eligibility requirements of New South Wales⁶ 	
	PRS24 PRS25	<p><i>January 1, 2019</i></p> <p>Mortgage loans or investments to finance or refinance new and existing residential real estate complying with the respective State/Territory requirements:</p> <ol style="list-style-type: none"> 1. New South Wales, where houses and apartments approved in the 	

⁴ The National Construction Code (NCC) is Australia’s primary set of technical design and construction provisions for buildings. As a performance-based code, it sets the minimum required level for buildings, including sustainability and energy efficiency.

⁵ Nationwide House Energy Rating Scheme (NatHERS) measures a home’s energy efficiency to generate a star rating. It was first introduced in 1993. A 6-star rating is the minimum standard in most Australian states and territories. It indicates good thermal performance.

⁶ Investors should note that the New South Wales requirements are being used as an eligibility proxy for properties in Western Australia, the Australian Capital Territory, and the Northern Territory until such time that they implement their own specific criteria.

		<p>Sydney Local Government Area after 1 January 2007 are deemed to be eligible, and houses and apartments in other areas of New South Wales are deemed to be eligible once approved after 1st January 2007;</p> <ol style="list-style-type: none"> 2. Victoria, where houses and apartments approved under NCC BCA 2011, as introduced on 1st May 2011, where construction was completed after 1st January 2012, will be deemed to be eligible (6 star NatHERS provision effective); 3. Tasmania, where houses and apartments approved under NCC BCA 2013, as introduced on 1st May 2013, where construction was completed after 1st January 2014, will be deemed to be eligible; 4. Queensland, where houses and apartments approved under the NCC BCA 2010, where construction was completed after 1st January 2011, will be deemed to be eligible (6 star NatHERS equivalent); and, 5. South Australia, where houses and apartments approved under the NCC BCA 2010, where construction was completed after 1st January 2011, will be deemed to be eligible (6 star NatHERS provision effective). 6. Western Australia, Australian Capital Territory and the Northern Territory shall be deemed to be eligible by satisfying the eligibility requirements of New South Wales.⁷ 	
	<p>PRS22 PRS23</p>	<p><i>October, 2018 Framework</i></p> <ul style="list-style-type: none"> • Mortgage loans or investments to finance or refinance new and existing residential real estate complying with the respective State/Territory requirements: <ol style="list-style-type: none"> 1. New South Wales, where houses approved in the Sydney Local Government Area after June 2004 are deemed to be eligible, and houses in other areas of New South Wales are deemed to 	

⁷ Investors should note that the New South Wales requirements are being used as an eligibility proxy for properties in Western Australia, the Australian Capital Territory and the Northern Territory until such time that these States and Territories implement State or Territory specific criteria.

		<p>be eligible once approved after July 2005. Apartments will only be deemed to be eligible by demonstration of a BASIX Energy 40 certification;</p> <ol style="list-style-type: none"> 2. Victoria, where houses and apartments approved under NCC BCA 2011, as introduced on 1st May 2011, or later will be deemed to be eligible (6 star NatHERS provision effective); 3. Tasmania, where houses and apartments approved under NCC BCA 2013, as introduced on 1st May 2013, or later will be deemed to be eligible; and, 4. Queensland, South Australia, Western Australia, Australian Capital Territory and the Northern Territory shall be deemed to be eligible by satisfying the eligibility requirements of New South Wales. 	
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Issuer’s Responsibility

Pepper is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of the use of proceeds of Pepper’s Green Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Pepper employees and review of documentation to confirm the conformance with the Pepper Green Bond Framework.

Sustainalytics has relied on the information and the facts presented by Pepper with respect to the Nominated Projects. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Pepper.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of the Pepper Green Bond, are not in conformance with the Use of Proceeds and reporting criteria outlined in the Pepper Green Bond Frameworks. Pepper has disclosed to Sustainalytics that the proceeds of the Green Bonds were fully allocated as of March 16, 2022.

Detailed Findings

Table 3: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the Green Bonds in 2018, 2019 and 2022 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Framework	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the Green Bonds in 2018, 2019 and 2022 to determine if impact of projects was reported in line with the KPIs outlined in the Framework	All projects reviewed reported on at least one KPI per use of proceeds category.	None

Appendix

Appendix 1: Allocation and Impact Reporting⁸ by Eligibility Criteria⁹

In December 2018, February 2019, May 2019, November 2019 and March 2022, Pepper Money raised AUD 1,058,070,000 (USD 703.93 million) through issuance of green bonds (PRS22, PRS23, PRS24, PRS25 and Pepper Prime 2022 -1). 100% of allocation were used towards refinancing a pool of existing Pepper Money originated mortgages on green residential buildings that fall within the eligibility criteria as outlined in the Framework.

Bond Issuance (Year)	Allocation Amount (In AUD equivalent)	Reference GHG Emissions ¹⁰ (t CO ₂ e per year)	State Average GHG Emissions ¹¹ (t CO ₂ e per year)	Total Savings (t CO ₂ e per year)	Percent GHG Emissions Avoided (%)
PRS22 (2018)	246,170,000	519.4	708.8	189.4	26.7%
PRS23 (2019)	158,000,000	423.7	602.0	178.3	29.6%
PRS24 (2019)	161,500,000	315.0	432.5	117.5	27.2%
PRS25 (2019)	162,400,000	435.6	603.0	167.3	27.8%
Pepper Prime 2022 -1 (2022)	330,000,000	2,148.4	2,925.4	777.0	26.6%
Total	1,058,070,000	3,842.1	5,271.7	1,429.6	137.8%

⁸ Strategy Policy Research (<http://strategypolicyresearch.com.au/>) was engaged by Pepper Money Limited to develop a model that could be used to estimate CO₂ emissions for homes in their mortgage portfolio(s).

⁹ Reported allocation and impact data is as of 30 April 2023.

¹⁰ Based on FY 2021 emissions intensity.

¹¹ Based on FY 2021 emissions intensity.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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