

# Pepper Money Limited

**Type of Engagement:** Green Bond Pre-Issuance Review

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## Introduction

In 2019, Pepper Money Limited (“Pepper Money”) developed the Pepper Money Limited Green Bond Framework<sup>1</sup> under which it issued green bonds aimed at refinancing Green Residential Building in Australia. Sustainalytics provided a Second Party Opinion<sup>2</sup> of the Framework.

In February 2022, Pepper Money has updated its Framework (the “Framework”)<sup>3</sup> and engaged Sustainalytics to review a portfolio of existing eligible Australian residential green building projects that will be funded through the Prime 2022-1 issuance and provide an assessment as to whether the projects would comply with the Use of Proceeds, Project Selection, and Management of Proceeds sections of the Framework.

## Evaluation Criteria

Sustainalytics evaluated the underlying projects that will be funded through the Prime 2022-1 issuance for compliance based on whether:

1. The portfolio of existing eligible green building projects are aligned with the Use of Proceeds Eligibility Criteria outlined in the updated Pepper Money Limited Green Bond Framework; and
2. The commitments to select projects, manage proceeds, and report on allocation and impact in order to ensure that these commitments are aligned with the ones described in the Framework.

The projects funded by Pepper Money's Prime 2022-1 issuance is summarized in Appendix 2 and Sustainalytics' findings are summarized in Appendix 3.

## Issuing Entity's Responsibility

Pepper Money is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including a description of the eligible projects in the portfolio. This information was provided to Sustainalytics to support its review. Pepper Money is also responsible for confirming to Sustainalytics that processes for project selection and management of proceeds for the 2022 issuance will remain aligned with the commitments described in the Framework.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Pepper Money's Prime 2022-1 issuance. The work undertaken as part of this engagement included verification of the portfolio of existing eligible green building projects and confirmation from relevant employees of Pepper Money that the use of proceeds, processes for project selection, management of proceeds, and reporting for the upcoming green bond issuance will remain aligned with the commitments described in the Framework.

Sustainalytics has relied on the information and the facts presented by Pepper Money with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings,

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<sup>1</sup> Pepper Money Limited corporate website, Debt Investor Center, <https://www.pepper.com.au/debt-investors>

<sup>2</sup> Sustainalytics, Pepper Green Bond Framework Second-Party Opinion, [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/pepper-green-bond-framework-second-party-opinion.pdf?sfvrsn=df11103\\_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/pepper-green-bond-framework-second-party-opinion.pdf?sfvrsn=df11103_1)

<sup>3</sup> The Pepper Money Limited Green Bond Framework is available on Pepper Money Limited's website at: <https://www.pepper.com.au/investors/debt-investors/green-bonds>

or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Pepper Money.

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 pre-issuance review.

### **Conclusion**

Based on the limited assurance procedures conducted,<sup>4</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, Pepper Money Limited's Prime 2022-1 issuance are not aligned with their existing Pepper Money Limited Green Bond Framework. Pepper has also confirmed to Sustainalytics that the proceeds of the bond will be managed in alignment with the commitments described in the updated Framework.

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<sup>4</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendix 1: Pepper Money Limited’s Use of Proceeds Eligibility Criteria

In February 2022, Pepper Money Limited (“Pepper Money”) updated the Pepper Green Bond Framework (the “Framework”) under which it will issue green bonds and use the proceeds to finance, or refinance, green residential buildings in Australia. The updated Framework defines eligibility criteria as new, or existing, mortgage loans complying with the following respective state/territory requirements in Australia:

1. New South Wales (NSW): houses approved under the Building Sustainability Index (BASIX) 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 include villas, townhouses and residential flat buildings in NSW from 1 October 2005. BASIX Energy 40 proxy for apartments will be deemed eligible.
2. Victoria: houses and apartments approved under NCC BCA 2011, as introduced on 1 May 2011, where construction was completed after 1 January 2013 are deemed to be eligible (6-star NatHERS 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).
6. Western Australia, Australian Capital Territory and the Northern Territory<sup>5</sup> deemed to be eligible by satisfying the eligibility requirements of New South Wales

## Appendix 2: Summary of 2022 Green Bond Projects

Pepper Money has identified projects in eight states and territories that are eligible for funding by the Prime 2022-1 Green Bond Issuances.

### Projected allocation by Region

State/Territory	Number of Projects	Projected Allocation (AUD)
New South Wales	242	\$ 140,870,344
Victoria	198	\$ 95,437,224
Tasmania	2	\$ 806,270
Queensland	116	\$ 49,156,263
South Australia	38	\$ 13,399,708
Australian Capital Territory	15	\$ 7,373,966
Western Australia	74	\$ 28,353,495
Northern Territory	1	\$ 535,400.00
<b>Total</b>	<b>686</b>	<b>\$ 335,932,671</b>

## Appendix 3: Sustainalytics’ Findings

<sup>5</sup> Houses and apartments in South Australia, Queensland, Australian Capital Territory, Western Australia and Northern Territory will be a part of the top 15% of the buildings in the respective jurisdiction in terms of energy performance.

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
Use of Proceeds Criteria	Verification of the green mortgage loans funded by the green bond issuance in 2022 (Appendix 2) to determine if the projects aligned with the Use of Proceeds Eligibility Criteria outlined in Pepper Money Limited's Pepper Money Limited Green Bond Framework (Appendix 1).	<p>All projects reviewed (Appendix 2) complied with the Use of Proceeds Eligibility Criteria.</p> <p>-The properties included in the Prime 2022-1 issuance portfolio were built after the eligible years defined as per the Use of Proceeds criteria in New South Wales, Victoria, Tasmania.</p> <p>-The properties in Queensland, South Australia Western Australia, Australian Capital Territory and the Northern Territory include dwellings that have been built in the last 5 years. Pepper Money Limited has confirmed to Sustainalytics that the dwellings under prime 2022-1 for the above regions constitute top 15% of the buildings in the respective jurisdiction in terms of energy performance alongside the criteria already set for the jurisdiction.</p>	None
<b>Project Selection and Management of Proceeds Criteria</b>	Verification of the projects funded by the green bond in 2022 to determine if the commitments under processes for project selection and management of proceeds were consistent with the Pepper Money Limited Green Bond Framework.	Pepper Money Limited has also confirmed to Sustainalytics that the processes for project selection and management of proceeds for the 2022 issuance are consistent with the commitments described in the Framework.	None

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