

Pepper Money Limited

Type of Engagement: Annual Review

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Introduction

In December 2018, February 2019, May 2019, and November 2019, Pepper Money Limited ("Pepper") issued green bonds (the "Green Bonds") aimed at financing and refinancing green mortgages. In February 2022, 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"). In 2018 and 2019 Sustainalytics provided Second Party-Opinion on the Frameworks¹. Two of the Bonds (PRS22 and PRS23) were issued under the Pepper Green Bond Framework dated October 2018. The remaining two bonds (PRS24 and PRS25) were issued under an updated Pepper Green Bond Framework dated January 1, 2019².

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2018 and 2019 based on whether the projects and programmes

- Met the Use of Proceeds and Eligibility Criteria outlined in the Pepper Green Bond Frameworks; and
- Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Pepper Green Bond Frameworks.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs

Table 1: Green Mortgages Eligibility Criteria and Key Performance Indicators³

Bonds	Eligibility Criteria – Green Mortgages	Key Performance Indicators
PRS24 PRS25	<i>January 1, 2019</i> Mortgage loans or investments to finance or refinance new and existing residential real estate complying with the respective State/Territory requirements: 1. New South Wales, where houses and apartments approved in the 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; 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);	• Net proceeds raised from each Green Bond; • Aggregate of funds drawn against each Pepper Green Bond eligible portfolio; • Where possible, qualitative and/or quantitative environmental impact reporting measures for the eligible assets within the Pepper Green Bond eligible portfolios, including disclosure of

¹ The Second Party-Opinion provided by Sustainalytics is available on Pepper Money Limited's website at: <https://www.pepper.com.au/investors/debt-investors/green-bonds>

² The January 1, 2019 framework was a minor update to the October 2018 framework, with use of proceeds remaining the same. 2019 Framework is available on Pepper Money Limited's website at: <https://www.pepper.com.au/investors/debt-investors/green-bonds>. Sustainalytics has combined this Annual Review to avoid duplication across two separate documents representing two frameworks.

³ All four bonds issued under the Pepper Green Bond Framework were allocated to Green Mortgages.

	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.⁴	methodologies utilised in impact reporting; • Any unallocated Green Bond proceeds and details of any temporary investments; and, • Confirmation that the use of proceeds of any Pepper Green Bonds are in compliance with this Framework.
PRS22 PRS23	<i>October, 2018 Framework</i> • Mortgage loans or investments to finance or refinance new and existing residential real estate complying with the respective State/Territory requirements: 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 be eligible once approved after July 2005. Apartments will only be deemed to be eligible by demonstration of a BASIX Energy 40 certification; 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.	

Issuing Entity'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 Pepper's Green Bond Use of Proceeds. The work undertaken as part of this

⁴ 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.

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,⁵ 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 December 31, 2021.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the Green Bonds in 2018 and 2019 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Pepper Green Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the Green Bonds in 2018 and 2019 to determine if impact of projects was reported in line with the KPIs outlined in the Pepper Green Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

⁵ 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: Environmental Impact Reporting – Avoided CO₂e/year⁶

Bond Issuance (Year)	Reference GHG Emissions ⁷ (t CO ₂ e per year)	State Average GHG Emissions ⁸ (t CO ₂ e per year)	Total Savings (t CO ₂ e per year)	Percent GHG Emissions Avoided (%)
PRS22 (2018)	797.2	1,106.5	309.3	28.0%
PRS23 (2019)	703.2	982.8	279.6	28.4%
PRS24 (2019)	639.5	900.6	261.1	29.0%
PRS25 (2019)	808.6	1,127.5	318.9	28.3%
Total	2,948.5	4,117.4	1,168.9	28.4%

⁶ Strategy Policy Research (<http://strategypolicyresearch.com.au/>) was engaged by Pepper Group to develop a model that could be used to estimate CO₂ emissions for homes in their mortgage portfolio(s). This table, provided by Pepper, summarizes the results of this analysis.

⁷ Based on 2016-17 emissions intensity

⁸ Based on 2016-17 emissions intensity

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