

# Second-Party Opinion

## Pepper Money Limited Green Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Pepper Money Limited Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible category for the use of proceeds – Green Residential Buildings – is aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible category are expected to contribute to the decarbonization of Australia’s residential building stock and advance the UN Sustainable Development Goals, specifically SDG 9.



**PROJECT EVALUATION / SELECTION** Pepper Money Limited’s internal process for identifying and monitoring projects will be carried out by its Green, Social & Sustainability Bonds Investment Forum, which is composed of members from various departments, including Treasury, Finance, Investor Relations and Human Resources. The Green, Social & Sustainability Bonds Investment Forum will give final approval to projects identified as eligible by Pepper Money’s Funding and Analytics Team. Pepper Money’s Credit Policy, Risk Management Policy and Risk Management framework applies to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** Pepper Money Limited’s Funding and Analytics Team will be responsible for the management and allocation of proceeds to eligible projects, under oversight from the Green, Social & Sustainability Bonds Investment Forum. The Company will use its internal tracking system to track and report the allocation of proceeds, using a green bond eligible portfolio and intends to allocate all proceeds to eligible instruments within three years of issuance. Pending allocation, proceeds may be temporarily invested in accordance with Pepper Money Limited’s investment guidelines. Sustainalytics considers this process to be in line with market practice.



**REPORTING** Pepper Money Limited intends to report on the allocation of proceeds in its Green Bond report on its website until full allocation. Allocation reporting will include the net proceeds of the green bonds issued under the Framework along with details on unallocated proceeds and temporary investments. In addition, Pepper Money is also committed to reporting on relevant impact metrics. Sustainalytics views Pepper Money’s allocation and impact reporting as aligned with market practice.

<b>Evaluation Date</b>	February 24, 2022
<b>Issuer Location</b>	Sydney, Australia

### Report Sections

Introduction .....	2
Sustainalytics’ Opinion.....	3
Appendices.....	9

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## Introduction

Pepper Money Limited (“Pepper Money” or the “Company”) is a residential mortgage and consumer lender company headquartered in Sydney, Australia. Founded in 2000, Pepper Money provides mortgages, asset finance and loan services. Pepper Money employs approximately 800 people with offices in Australia, New Zealand and Philippines.<sup>1</sup>

Pepper Money has developed the Pepper Money Limited Green Bond Framework (the “Framework”) under which it intends to issue green bonds and use the proceeds to provide mortgage loans or investments to finance or refinance new and existing residential real estate properties that are expected to contribute to the decarbonization of Australia’s residential building stock.

The Framework defines eligibility criteria in one green area:

1. Green Residential Buildings

Pepper Money engaged Sustainalytics to review the Pepper Money Limited Green Bond Framework, dated February 2022, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).<sup>2</sup> The Framework has been published in a separate document.<sup>3</sup> The Framework builds on a previous framework and SPO Update dated February 2019.

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>4</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11.2, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Pepper Money’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Pepper Money representatives have confirmed (1) they understand it is the sole responsibility of Pepper Money to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Pepper Money.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the

<sup>1</sup> Based on information provided by Pepper Money to Sustainalytics

<sup>2</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<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>

<sup>4</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Pepper Money has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Pepper Money Limited Green Bond Framework

Sustainalytics is of the opinion that the Pepper Money Limited Green Bond Framework is credible and impactful and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of Pepper Money's Green Bond Framework:

- Use of Proceeds:
  - The eligible category – Green Residential Buildings – is aligned with those recognized by the GBP. Sustainalytics considers that Pepper Money's investments in green residential buildings are expected to contribute to the decarbonization of Australia's residential building stock.
  - The Company has defined a three-year look-back period for refinancing activities, which Sustainalytics considers to be aligned with market practice.
  - In the Green Residential Buildings category, Pepper Money may provide mortgage loans or investments to finance or refinance new and existing residential real estate properties in eight states or territories, using local building codes and standards, including:
    - (i) New South Wales (NSW): houses and apartments in all areas of NSW approved after 1 October 2005, and houses approved under the Building Sustainability Index (BASIX) Energy 40 requirements for Sydney Metropolitan Local Government Areas approved after 1 July 2004;
    - (ii) Victoria: houses and apartments approved under National Construction Code (NCC)'s Building Code of Australia (BCA) 2011, whose construction was completed after 1 January 2013 along with achieving NatHERS 6 stars;
    - (iii) Tasmania: houses and apartments approved under NCC BCA 2013, whose construction was completed after 1 January 2015.
  - Sustainalytics considers this approach to identify the top 15% energy performing buildings in Australia to be aligned with market practice as this scheme, when accompanied by certain third-party standards (BASIX, NatHERS, NCC BCA), meets the requirements under the location specific criteria of the Climate Bonds Standard for the Australian context, ensures low-carbon performance in terms of emissions intensity and helps meet the net zero carbon emissions trajectory by 2050.<sup>5</sup> Sustainalytics notes that a NatHERS 6-star energy equivalence rating for Victoria further ensures thermal efficiency of the building's envelope, including its roof, walls, windows and floors. Sustainalytics views that the completion year of construction of the residential buildings may act as a safeguard for ensuring that proceeds are only allocated to buildings which are compliant with more recent local building codes and thus meet higher environmental standards and encourages Pepper Money to prioritize buildings that are recently constructed.

<sup>5</sup> Climate Bonds Initiative, "Location Specific Criteria for Residential Buildings", at: <https://www.climatebonds.net/standard/buildings/residential/calculator>

- (iv) Queensland and South Australia: houses and apartments approved under the NCC BCA 2010, whose construction was completed after 1 January 2012, along with achieving NatHERS 6 stars.
- Sustainalytics acknowledges the current market limitation in using building codes to identify the top 15% energy performing buildings in Queensland and South Australia since the building codes in these states have not yet been recognized as eligible proxies under the location specific criteria of the Climate Bonds Standard. Sustainalytics notes that the Framework mandates achieving a NatHERS 6-star energy equivalence rating for Queensland and South Australia, which ensures thermal efficiency of the building's envelope, including its roof, walls, windows and floors. Additionally, Pepper money has confirmed to explicitly target and finance the top 15% of the buildings in the respective jurisdiction in terms of energy performance alongside the criteria already set for the jurisdiction, which is aligned with market practice.
- (vi) Western Australia, Australian Capital Territory and the Northern Territory: houses and apartments satisfying the eligibility requirements for NSW above.
- The Framework relies on the NSW building code as an eligibility proxy for properties in Western Australia, the Australian Capital Territory and the Northern Territory. However, Sustainalytics notes that building codes are specific to a region and typically tailored for the region's unique climate. Thus, applying the same building codes across different regions may not lead to the same energy efficiency improvements because of variations in climate. Sustainalytics also acknowledges the current market limitation in using building codes to identify the top 15% energy performing buildings in Australia, since the building codes in Western Australia, the Australian Capital Territory and the Northern Territory have not yet been recognized as eligible proxies under the location specific criteria of the Climate Bonds Standard. Additionally, Pepper money has confirmed to explicitly target and finance the top 15% of the buildings in the respective jurisdiction in terms of energy performance alongside the criteria already set for the jurisdiction, which is aligned with market practice.
- Project Evaluation and Selection:
    - Pepper Money has established a Green, Social & Sustainability Bonds Investment Forum (GSSBIF), comprised of members from various departments, including Treasury, Finance, Investor Relations and Human Resources. The GSSBIF will be responsible for evaluating and selecting eligible projects in line with the Framework's eligibility criteria.
    - The Company's Funding and Analytics Team identifies potential eligible projects which are then reviewed for compliance and receive a final approval from the GSSBIF.
    - Pepper Money's Credit Policy,<sup>6</sup> Risk Management Policy<sup>7</sup> and Risk Management framework<sup>8</sup> focus on managing and mitigating environmental and social risks of the projects financed and are applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectations. For additional detail, see Section 2.
    - Based on the establishment of a formal group for evaluation and selection and its cross-functional oversight, Sustainalytics considers this process to be in line with market practice.
  - Management of Proceeds:
    - The Company's Funding and Analytics Team will be responsible for the management and allocation of proceeds with oversight from the GSSBIF. Pepper Money will use its internal tracking system to track and report the allocation of proceeds using a green bond eligible portfolio.

<sup>6</sup> Information shared confidentially with Sustainalytics

<sup>7</sup> Pepper Money Limited, "Risk Management Policy", (2021), at: <https://www.pepper.com.au/globalassets/au-pepper/about/governance/pepper-money-audit-and-risk-committee-charter.pdf>

<sup>8</sup> Pepper Money Limited, "Audit and Risk Management Committee Charter", (2021), at: <https://www.pepper.com.au/globalassets/au-pepper/about/governance/pepper-money-audit-and-risk-committee-charter.pdf>

- Pepper Money intends to allocate all proceeds to eligible instruments within three years of issuance. Pending allocation, proceeds may be invested in accordance with the Company's investment guidelines.
- Based on the use of a tracking system and disclosure of temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - Pepper Money intends to report on the allocation and impact of proceeds in its annual Green Bond report, which will be publicly available on the Company's website.
  - Allocation reporting will include the net proceeds of the green bonds issued under the Framework along with details on unallocated proceeds and temporary investments.
  - In addition, the Company is committed to reporting on relevant impact metrics where feasible, such as GHG emissions saved.
  - Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### **Alignment with Green Bond Principles 2021**

Sustainalytics has determined that the Pepper Money Limited Green Bond Framework aligns with the four core components of the GBP. For detailed information, please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

## **Section 2: Sustainability Strategy of Pepper Money**

### **Contribution of the Framework to Pepper Money's sustainability strategy**

Sustainalytics is of the opinion that Pepper Money demonstrates a commitment to sustainability through its mission "to achieve a lower carbon footprint through the construction and purchase of more energy efficient and low carbon homes".<sup>9</sup> Pepper Money prioritizes lending to green buildings, which is in line with the eligible expenditures identified under the Framework. In 2018-19, Pepper Money issued four green bonds through which it raised AUD 728 million (USD 516 million) and funded over 2,000 green residential properties. This led to a savings of 2,144 tCO<sub>2</sub>e in 2020 and 1,169 tCO<sub>2</sub>e in 2021 with 27.6% and 28.4% reduction in CO<sub>2</sub> emissions, respectively, when compared to conventional buildings.<sup>10,11</sup> As of February 2022, Pepper Money has funded approximately another 700 green residential properties saving 1,218 tCO<sub>2</sub>e in 2021 reducing approximately 26.8% of CO<sub>2</sub> emissions.<sup>12</sup>

Pepper Money has communicated to Sustainalytics that it is formalizing a company-wide strategy to better address ESG issues, which is under review by its Board. Sustainalytics recognizes the sustainability-focused efforts of Pepper Money, but notes that the Company has not released a publicly accessible sustainability strategy nor target. Sustainalytics encourages Pepper Money to set and communicate timebound quantitative targets for future sustainable financing and encourages the establishment of such targets. Sustainalytics is of the opinion that the Pepper Money Limited Green Bond Framework is aligned with the Company's overall sustainability initiatives and will further the Company's action on its key environmental priorities.

### **Approach to managing environmental and social risks associated with the projects**

Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have a positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes, which may affect Pepper Money as a lender. While Pepper Money has limited involvement in the development of the specific projects to be financed under the Framework, it is exposed to environmental and social risks associated with the loans that it may finance. Some key environmental and social risks possibly associated with the eligible projects could include predatory lending, occupational health and safety, land and biodiversity concerns associated with construction and infrastructure projects, and community-related issues.

<sup>9</sup> Pepper Money Limited, "Green Bonds", at: <https://www.pepper.com.au/investors/debt-investors/green-bonds>

<sup>10</sup> Based on Allocation and Impact Report provided by Pepper Money Limited

<sup>11</sup> Pepper communicated to Sustainalytics that it engaged Strategy Policy Research ( (<http://strategypolicyresearch.com.au/>) to develop a model that could be used to estimate CO<sub>2</sub> emissions for homes in their mortgage portfolio(s). CO<sub>2</sub> emissions savings are calculated based on 2017 estimated annual emissions across Australia by state. This estimate is based on the total residential energy consumption in Australia.

<sup>12</sup> Ibid

Sustainalytics is of the opinion that Pepper Money is able to manage or mitigate potential risks through implementation of the following:

- The Company's Audit and Risk Management Committee,<sup>13</sup> with oversight from Pepper Money's Board, has adopted a Credit Policy,<sup>14</sup> Risk Management Policy<sup>15</sup> and Risk Management framework through which it assesses environmental and social risks associated with its lending and business operations. The risks are analysed, evaluated and a risk mitigation plan is developed and implemented for each lending operation. Pepper Money periodically monitors and reports on the progress of the risk mitigation plan.
- Pepper Money ensures responsible lending practices through its Credit Policy that ensures compliance with Australia's National Consumer Credit Protection Act as well as guidance published by the Australian Securities and Investment Commission (ASIC) and the Australian Financial Complaints Authority (AFCA).<sup>16</sup>
- Further, Pepper Money mandates independent valuation reports for all projects financed to mitigate all risks, including environmental and social risk. The valuation reports ensure that each project financed under the Framework complies with the National Construction Code of Australia.<sup>17</sup>
- The Work Health and Safety Act 2011<sup>18</sup> provides the legal framework to protect health, safety and welfare of workers in Australia. Under the law, employers or anyone falling under the definition of "person conducting a business or undertaking" have legal obligations to manage hazards and workplaces risks.
- The Commonwealth Government's Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)<sup>19</sup> creates Australia's national scheme for the environment and heritage protection and biodiversity conservation, ensuring activities involving national environmental significance are required to comply with the EPBC framework.
- Sustainalytics recognizes that projects will align with the respective criteria of the Climate Bonds Standard Version 3.0, which includes mitigation and adaptation requirements, mitigating environmental and social risks of the projects financed.<sup>20</sup>
- Sustainalytics notes that Australia is categorized as a Designated Country under the Equator Principles, indicating strong environmental and social governance legislation systems and institutional capacity to mitigate common environmental and social risks.<sup>21</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Pepper Money has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

The use of proceeds category is aligned with those recognized by the GBP. Sustainalytics has focused below where the impact is specifically relevant in the local context.

#### Importance of green residential buildings in Australia

Residential buildings were responsible for approximately 24% of Australia's total electricity use and 12% of total CO<sub>2</sub> emissions in 2021.<sup>22</sup> The Clean Energy Finance Corporation report<sup>23</sup> identifies potential in cutting emissions from the building sector. On average, sustainability rated infrastructure projects achieve a

<sup>13</sup> Pepper Money Limited, "Audit and Risk Management Committee Charter", (2021), at: <https://www.pepper.com.au/globalassets/au-pepper/about/governance/pepper-money-audit-and-risk-committee-charter.pdf>

<sup>14</sup> Information shared confidentially with Sustainalytics

<sup>15</sup> Pepper Money Limited, "Risk Management Policy", (2021), at: <https://www.pepper.com.au/globalassets/au-pepper/about/governance/pepper-money-audit-and-risk-committee-charter.pdf>

<sup>16</sup> Pepper Money Limited, "Our Commitment to Responsible Lending", at: <https://www.pepper.com.au/responsible-lending>

<sup>17</sup> Information shared confidentially with Sustainalytics

<sup>18</sup> Australian Government, "Work Health and Safety Act 2011", at: <https://www.legislation.gov.au/Details/C2018C00293>  
<https://legislation.nsw.gov.au/view/html/inforce/current/act-2011-010#pt.8-div.1>

<sup>19</sup> Australian Government, "Federal Register of Legislation, Environment Protection and Biodiversity Conservation Act 1999", at: <https://www.legislation.gov.au/Details/C2016C00777>

<sup>20</sup> Climate Bonds Initiative, "Climate Bonds Standard Version 3.0", (2019), at: <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>

<sup>21</sup> The Equator Principles, "Designated Countries", at: <https://equator-principles.com/designated-countries/>

<sup>22</sup> Australian Government, Department of Industry, Science, Energy and Resources, "Residential Buildings", (2021), at: <https://www.energy.gov.au/government-priorities/buildings/residential-buildings>

<sup>23</sup> Clean Energy Finance Corporation, "Australian buildings and infrastructure: Opportunities for cutting embodied carbon", (2021), at: <https://www.cefc.com.au/media/ovrkk5l3/australian-buildings-and-infrastructure-opportunities-for-cutting-embodied-carbon.pdf>



reduction of up to one-third of the carbon footprint compared to similar designs with no such measures.<sup>24</sup> According to the International Energy Agency, all new buildings and 20% of the existing building stock would need to be zero-carbon ready by 2030 to help limit global warming to 1.5°C or below, in line with the Paris Agreement.<sup>25</sup> Cutting down buildings-related emissions is therefore crucial for Australia to meet its Paris Agreement targets of 26-28% GHG emissions reduction by 2030 compared to 2005 levels. In its recent 2021 Nationally Determined Contribution (NDC) update under the Paris Agreement, the Australian government has committed to net zero emissions by 2050.<sup>26</sup>

Australia's Trajectory for Low-Energy Buildings is a national plan to achieve zero energy and carbon-ready commercial and residential buildings in Australia by 2030.<sup>27</sup> The national plan targets energy efficiency improvement for new buildings and renovations, energy efficiency disclosure and improving HVAC performance. Further, the Australian Government aims to reduce GHG emissions from residential buildings by encouraging improved thermal performance of homes through the Nationwide House Energy Rating Scheme (NatHERS), a rating system for the energy efficiency of residential houses based on house design, construction materials and climate zone.<sup>28</sup> In 2020, 85% of building approvals in Australia used NatHERS as a pathway to meet the NCC energy efficiency requirements.<sup>29</sup> In particular, the NSW government uses BASIX as a planning measure to reduce household electricity and water use by setting minimum sustainability targets for new and renovated homes. Since its inception in 2004, BASIX-compliant homes are estimated to have avoided 12.3 million tonnes of GHG emissions and saved 340 billion litres of drinking water.<sup>30</sup>

Given the above-mentioned context, Sustainalytics is of the opinion that Pepper Money's financing in green buildings is expected to increase the share of residential green buildings in Australia, thereby contributing to the decarbonization of residential buildings in the country.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The bonds issued under the Pepper Money Limited Green Bond Framework are expected to help advance the following SDG and target:

Use of Proceeds Category	SDG	SDG target
Green Residential Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

<sup>24</sup> Australian Government, Department of Industry, Science, Energy and Resources, "Australia's opportunity to cut embodied carbon in buildings and infrastructure", (2021), at: <https://www.energy.gov.au/news-media/news/australias-opportunity-cut-embodied-carbon-buildings-and-infrastructure>

<sup>25</sup> International Energy Agency, "Tracking Buildings 2021", (2021), at: <https://www.iea.org/reports/tracking-buildings-2021>

<sup>26</sup> Australian Government, Department of Industry, Science, Energy and Resources, "International climate change commitments", (2021), at: <https://www.industry.gov.au/policies-and-initiatives/international-climate-change-commitments#:~:text=Australia's%20first%20NDC%20is%20on%20the%20UNFCCC%20registry%3A&text=2021%20NDC%20update%3A%20committed%20to,up%20to%209%20percentage%20points.>

<sup>27</sup> Australian Government, Department of Industry, Science, Energy and Resources, "Government Priorities", (2021), at: <https://www.energy.gov.au/government-priorities/buildings/trajectory-low-energy-buildings>

<sup>28</sup> Australian Government, "NatHERS", at: <https://www.nathers.gov.au/>

<sup>29</sup> Australian Government, "NatHERS Year in Review", (2020), at: <https://www.nathers.gov.au/newsletter/issue-11-december-2020>

<sup>30</sup> Ali, A. (2022), "4 important facts about BASIX new standards", Inter Press Service News Agency, accessed (16.02.22) at: <https://ipsnews.net/business/2022/02/14/4-important-facts-about-basix-new-standards/>

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## Conclusion

Pepper Money has developed the Pepper Money Limited Green Bond Framework under which it may issue green bonds and use the proceeds to finance and refinance green residential buildings. Sustainalytics considers that the projects funded by the green bond proceeds are expected to contribute to the decarbonization of Australia's residential building stock.

The Pepper Money Limited Green Bond Framework outlines a process for tracking, allocating and managing proceeds, and makes commitments for Pepper Money to report on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Pepper Money Limited Green Bond Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds category is expected to contribute to advancing the UN Sustainable Development Goals, specifically SDG 9. Additionally, Sustainalytics is of the opinion that Pepper Money has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that Pepper Money is well positioned to issue green bonds and that that Pepper Money Limited Green Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021).



## Appendix

### Appendix 1: Green Bond / Green Bond Programme - External Review Form

#### Section 1. Basic Information

<b>Issuer name:</b>	Pepper Money Limited
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:</b>	Pepper Money Limited Green Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	February 24, 2022
<b>Publication date of review publication:</b>	Updated Framework from February 2019.
<b>Original publication date [please fill this out for updates]:</b>	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                                |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

## Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible category for the use of proceeds – Green Residential Buildings – is aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible category are expected to contribute to the decarbonization of Australia's residential building stock and advance the UN Sustainable Development Goal (SDG) 9.

#### Use of proceeds categories as per GBP:

- |   |  |
|---|--|
| <input type="checkbox"/> Renewable energy   | <input type="checkbox"/> Energy efficiency   |
| <input type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation  | <input type="checkbox"/> Clean transportation  |
| <input type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                            | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

If applicable please specify the environmental taxonomy, if other than GBP:

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

Pepper Money Limited's internal process for identifying and monitoring projects will be carried out by its Green, Social & Sustainability Bonds Investment Forum, which is composed of members from various departments, including Treasury, Finance, Investor Relations and Human Resources. The Green, Social & Sustainability Bonds Investment Forum will give final approval to projects identified as eligible by Pepper Money's Funding and Analytics Team. Pepper Money's Credit Policy, Risk Management Policy and Risk Management framework applies to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.

#### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
|---|---|

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                  | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

#### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other ( <i>please specify</i> ):  |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Pepper Money Limited's Funding and Analytics Team will be responsible for the management and allocation of proceeds to eligible projects, under oversight from the GSSBIF. The Company will use its internal tracking system to track and report the allocation of proceeds, using a green bond eligible portfolio and intends to allocate all proceeds to eligible instruments within three years of issuance. Pending allocation, proceeds may be temporarily invested in accordance with the Company's investment guidelines. Sustainalytics considers this process to be in line with market practice.

#### Tracking of proceeds:

- |   |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner          |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other ( <i>please specify</i> ):   |

#### Additional disclosure:

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only                             | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                             | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other ( <i>please specify</i> ):                               |

### 4. REPORTING

Overall comment on section (*if applicable*):

Pepper Money Limited intends to report on the allocation of proceeds in its Green Bond report on its website until full allocation. Allocation reporting will include the net proceeds of the green bonds issued under the Framework along with details on unallocated proceeds and temporary investments. In addition, Pepper Money

is also committed to reporting on relevant impact metrics. Sustainalytics views Pepper Money's allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

**Information reported:**

- Allocated amounts
  Green Bond financed share of total investment
- Other (please specify): net proceeds, unallocated proceeds and temporary investments.

**Frequency:**

- Annual
  Semi-annual
- Other (please specify):

**Impact reporting:**

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings
  Energy Savings
- Decrease in water use
  Other ESG indicators (please specify):

**Frequency**

- Annual
  Semi-annual
- Other (please specify):

**Means of Disclosure**

- Information published in financial report
  Information published in sustainability report
- Information published in ad hoc documents
  Other (please specify): Green Bond report on its website annually
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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