

# Pepper Money Limited

**Type of Engagement:** Annual Review

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**Engagement Team:**

Akshay Chandrakapure, [akshay.chandrakapure@morningstar.com](mailto:akshay.chandrakapure@morningstar.com)

Nachiket Goli, [nachiket.goli@morningstar.com](mailto:nachiket.goli@morningstar.com)

Tomya Sardana, [tomya.sardana@morningstar.com](mailto:tomya.sardana@morningstar.com)

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## Introduction

In November 2019 and March 2022, Pepper Money Limited (“Pepper Money” or the “Issuer”) issued two green bonds<sup>1</sup> under the Pepper Residential Securities Programs “PRS25” and “Prime 2022-1” collectively (the “Green Bonds”), to finance and refinance mortgages on green residential real estate properties. In 2024, Pepper Money engaged Sustainalytics to review the projects financed with proceeds from the Green Bonds (the “Nominated Expenditures”) and provide an assessment as to whether they meet the use of proceeds criteria and whether Pepper Money complied with the reporting commitments outlined for PRS25 under the 2019 Pepper Group Green Bond Framework and for Prime 2022-1 under the 2022 Pepper Money Limited Green Bond Framework.<sup>2</sup> Sustainalytics provided a Second-Party Opinion on the 2019 Framework in February 2019<sup>3</sup> which was subsequently updated in February 2022.<sup>4</sup> This is Sustainalytics’ third annual review of allocation and reporting of the instruments issued under these Frameworks, following a previous review in March 2022<sup>5</sup> and May 2023.<sup>6</sup>

## Evaluation Criteria

Sustainalytics evaluated the Nominated Expenditures and Pepper Money’s reporting based on whether they:

1. Meet the use of proceeds and eligibility criteria defined in the Frameworks; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Frameworks.

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<sup>1</sup> Pepper Money issued two green bonds: i) In November 2019, Pepper Money issued the Class A1-G€ Bonds under the PRS25 and ii) In March 2022, Pepper Money issued the Class A1-G Bonds under the Prime 2022-1.

<sup>2</sup> Pepper Money, “Green Bond Framework”, (2022), at: <https://www.peppermoney.com.au/content/dam/pepper/pepper-direct-au-documents-nc/investors/debt-investors/pepper-green-bond-framework-v.1.2.-feb-2022.pdf>

<sup>3</sup> Sustainalytics, “Second-Party Opinion, Pepper Group”, (2019), at: <https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/pepper-green-bond-framework-second-party-opinion.pdf>

<sup>4</sup> Sustainalytics, “Second-Party Opinion, Pepper Money”, (2022), at: <https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/pepper-money-limited-green-bond-framework-2022-second-party-opinion.pdf>

<sup>5</sup> Sustainalytics, “Annual Review”, (2022), at: <https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/pepper-money-limited-green-bond-pre-issuance-review-2022.pdf>

<sup>6</sup> Sustainalytics, “Annual Review”, (2023), at: [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/pepper-money-annual-review\\_finaldraft.pdf](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/pepper-money-annual-review_finaldraft.pdf)

**Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs from the 2019 Pepper Group Green Bond Framework**

| Use of Proceeds               | Eligibility Criteria  | Key Performance Indicators   |
|-------------------------------|---|--|
| <p><b>Green Mortgages</b></p> | <p>Mortgage loans or investments to finance or refinance new and existing residential real estate complying with the respective State requirements:</p> <ul style="list-style-type: none"> <li>i. New South Wales (NSW), 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;</li> <li>ii. Victoria (VIC), where houses and apartments approved under NCC BCA 2011, as introduced on 1 May 2011, where construction was completed after 1st January 2012 will be deemed to be eligible (6 star NatHERS provision effective);</li> <li>iii. Tasmania (TAS), where houses and apartments approved under NCC BCA 2013, as introduced on 1 May 2013, where construction was completed after 1st January 2014, will be deemed to be eligible;</li> <li>iv. Queensland (QLD), where houses and apartments approved under the NCC BCA 2010, where construction was completed after 1 January 2011, will be deemed to be eligible (6 star NatHERS equivalent);</li> <li>v. South Australia (SA), where houses and apartments approved under the NCC BCA 2010, where construction was completed after 1 January 2011, will be deemed to be eligible (6 star NatHERS provision effective); and,</li> <li>vi. Western Australia (WA), Australian Capital Territory (ACT) and the Northern Territory (NT) shall be deemed to be eligible by satisfying the eligibility requirements of New South Wales<sup>7</sup></li> </ul> | <p>Quantitative performance measurement of GHG emissions reduced</p> |

**Table 2: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs from the 2022 Pepper Money Limited Green Bond Framework**

| Use of Proceeds                           | Eligibility Criteria   | Key Performance Indicators   |
|---|--|--|
| <p><b>Green Residential Buildings</b></p> | <p>Australian green residential buildings that meet the following respective local construction standards:</p> <ul style="list-style-type: none"> <li>i. New South Wales (NSW) - houses approved under the Building Sustainability Index (BASIX)<sup>8</sup> 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.</li> <li>ii. Victoria (VIC) - houses and apartments approved under NCC BCA 2011<sup>9</sup>, as introduced on 1 May 2011, where construction was completed after 1 January 2013 are deemed to be eligible (6-star NatHERS<sup>10</sup> provision effective);</li> <li>iii. Tasmania (TAS) - 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;</li> <li>iv. Queensland (QLD)- 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);</li> <li>v. South Australia (SA)- 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,</li> <li>vi. Western Australia (WA), Australian Capital Territory (ACT), and the Northern Territory (NT) - deemed to be eligible by satisfying the eligibility requirements of New South Wales<sup>11</sup></li> </ul> | <p>Quantitative performance measurement of GHG emissions reduced</p> |

<sup>8</sup> 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 GHG emissions reduction across NSW.

<sup>9</sup> 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.

<sup>10</sup> Introduced in 1993, the Nationwide House Energy Rating Scheme (NatHERS) measures a home's energy efficiency to generate a star rating. A 6-star rating is the minimum standard in most Australian states and territories and indicates good thermal performance.

<sup>11</sup> 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.

## Issuer’s Responsibility

Pepper Money is responsible for providing accurate information and documentation relating to the details of the projects, including descriptions, amounts allocated and impact.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from the Green Bonds. The work undertaken as part of this engagement included collection of documentation from Pepper Money and review of said documentation to assess conformance with the Frameworks.

Sustainalytics relied on the information and the facts presented by Pepper Money. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein 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 of the review.

## Conclusion

Based on the limited assurance procedures conducted,<sup>12</sup> nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the Nominated Expenditures do not conform with the use of proceeds criteria and reporting commitments outlined in the Frameworks. Pepper Money has disclosed to Sustainalytics that the proceeds from the Green Bonds were fully allocated as of March 2022.

## Detailed Findings

**Table 3: Detailed Findings**

| <b>Framework Requirements</b>   | <b>Procedure Performed</b>  | <b>Factual Findings</b>   | <b>Error or Exceptions Identified</b> |
|---------------------------------|---|---|---------------------------------------|
| <b>Use of Proceeds Criteria</b> | Verification of the Nominated Expenditures to determine alignment with the use of proceeds criteria outlined in the Framework.            | The Nominated Expenditures comply with the use of proceeds criteria.    | None                                  |
| <b>Reporting Criteria</b>       | Verification of the Nominated Expenditures or assets to determine if impact was reported in line with the KPIs outlined in the Framework. | Pepper Money reported on at least one KPI per use of proceeds category. | None                                  |

<sup>12</sup> Sustainalytics’ limited assurance process includes reviewing documentation relating to details of projects, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions of projects, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits to projects.

## Appendix

Since November 2019, Pepper Money issued the Green Bonds, raising AUD 492.40 million. 100% of the proceeds were used to finance or refinance the below mentioned project.

**Table 4: Allocation and Estimated Impact from the Green Bonds as of June 2024<sup>13, 14</sup>**

| Use of Proceeds Category    | Bond Details        | Net Proceeds Allocated (AUD million) | Estimated GHG Emissions (tCO <sub>2</sub> e per year) <sup>15</sup> | State Estimated Average GHG Emissions (tCO <sub>2</sub> e per year) | Total Estimated Emissions Savings (tCO <sub>2</sub> e per year) |
|-----------------------------|---------------------|--------------------------------------|---|---|---|
| Green Residential Buildings | PRS25 (2019)        | 162.40                               | 291.9   | 394.7   | 102.8   |
|                             | Prime 2022-1 (2022) | 330.00                               | 1,166.9   | 1,560.5   | 393.6   |
| <b>Total</b>                |                     | <b>492.40</b>                        | <b>1,458.8</b>  | <b>1,955.2</b>  | <b>496.4</b>  |

**Table 5: State-wise Estimated impact from bonds issued under PRS25**

| KPIs   | NSW   | VIC    | QLD  | SA   | WA   | TAS | NT  | ACT  | Total |
|--|-------|--------|------|------|------|-----|-----|------|-------|
| Property Count (no.)   | 17    | 19     | 13   | 3    | 5    | 0   | 0   | 2    | 59    |
| Estimated GHG Emissions (tCO <sub>2</sub> -e per year) <sup>16</sup> | 97.3  | 108.36 | 52.7 | 7.3  | 13.9 | 0.0 | 0.0 | 12.1 | 291.9 |
| State Average GHG Emissions (FY2021 emissions intensity)             | 106.1 | 149.4  | 83.2 | 10.0 | 31.5 | 0.0 | 0.0 | 14.5 | 394.7 |
| Total Savings (tCO <sub>2</sub> -e/year)                             | 8.8   | 40.7   | 30.5 | 2.6  | 17.7 | 0.0 | 0.0 | 2.4  | 102.8 |

**Table 6: State-wise Estimated impact from bonds issued under Prime 2022-1**

| KPIs   | NSW   | VIC   | QLD   | SA   | WA    | TAS | NT   | ACT  | Total   |
|--|-------|-------|-------|------|-------|-----|------|------|---------|
| Property Count (no.)   | 69    | 91    | 35    | 9    | 19    | 1   | 1    | 4    | 229     |
| Estimated GHG Emissions (tCO <sub>2</sub> -e per year) <sup>17</sup> | 400.5 | 523.7 | 139.8 | 21.7 | 52.0  | 0.8 | 4.0  | 24.4 | 1,166.9 |
| State Average GHG Emissions (FY2021 emissions intensity)             | 436.5 | 715.4 | 224.0 | 30.1 | 119.9 | 2.0 | 3.5  | 29.1 | 1,560.5 |
| Total Savings (tCO <sub>2</sub> -e/year)                             | 35.9  | 191.7 | 84.2  | 8.4  | 67.9  | 1.2 | -0.4 | 4.7  | 393.6   |

<sup>13</sup> Sustainalytics notes that the allocation and estimated impact data is on cumulative basis.

<sup>14</sup> Pepper Money has communicated to Sustainalytics that the residential properties comply with the eligibility criteria as outlined in the Framework. While NatHERS certification is not mandatory, the properties have adhered to its requirements.

<sup>15</sup> Pepper Money has communicated to Sustainalytics that it has used an estimator tool to estimate CO<sub>2</sub> emissions for homes in its mortgage portfolio provided by Strategy Policy Research (SPR), at: <http://strategypolicyresearch.com.au/>

<sup>16</sup> Pepper Money has informed Sustainalytics that the SPR model estimates the annual emissions in tons of CO<sub>2</sub>-e per dwelling for each state, property types and construction year based on FY2021 emission intensity.

<sup>17</sup> Ibid.

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