



peppermoney

Green Bond Framework
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1. Company overview

Pepper Money Limited (Pepper Money) is a leading Non-Bank Lender in the Australian and New Zealand Mortgage market and the Asset Finance market in Australia.

Pepper Money was founded in 2000 to provide innovative home loan solutions to customers that were underserved and undervalued by traditional lenders. Today, Pepper Money's business model provides a diversified base of revenue generated at multiple points across the customer relationship and includes loan origination, lending, loan servicing and broker administration.

The three core segments which Pepper Money operates in are as follows:

- **Mortgages:** financing residential home loans and small balance commercial real estate loans;
- **Asset Finance:** financing a range of asset types for consumer and commercial customers; and
- **Loan and Other Servicing:** independent loan servicing for mortgages and personal loans, and broker administration servicing.

Pepper Money's operating model combines risk-based credit underwriting expertise with customer focused operations, servicing and collections management. Together these deliver strong performance in both the lending and servicing businesses across multiple asset classes from residential and commercial mortgages to consumer and commercial asset financing.

Pepper Money was listed on the Australian Securities Exchange (ASX: PPM) in May 2021. As of 31 December 2021, Pepper Money had A\$17.0 billion in assets under management through helping 288,900 customers since 2014.

Pepper Money has been built on discovering new ways to finance ambition. As a people-focused lender, Pepper Money specialises in flexible loan solutions based on individual credit assessment. It enables the business to support many borrowers who fall outside the credit criteria of the major banks. Pepper Money lives its mission: **to help people succeed**.

2. Green Bond Principles

2.1. Introduction

Green Bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects. A designated eligible Green Project should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.

The International Capital Markets Association (ICMA) 2021 [Green Bond Principles](#) (GBP), together with their 2021 [Social Bond Principles](#) (SBP), and 2021 [Sustainability Bond Guidelines](#) (SBG) and the 2020 [Sustainability-Linked Bond Principles](#) (SLBP) are published under the governance of the Principles¹. The Principles are a collection of voluntary guidelines with the stated mission and vision of promoting the role that global debt capital markets can play in financing progress towards environmental and social sustainability.

The Green and Social Bond Principles are the global standard for an almost US\$2 trillion² market representing the largest source of market finance dedicated to sustainability and climate transition available internationally to corporates, banks, and sovereigns.

2.2. Core components

As recommended by ICMA, Pepper Money has used the following four core components of the GBP to develop a Green Bond Framework (Framework) to issue Green Bonds:

- use of proceeds,
- process for project evaluation and selection,
- management of proceeds,
- reporting.

Each of these components is discussed in detail in the following section.

3. Green Bond Framework

3.1. Use of proceeds and eligible Green Projects

The proceeds of any Pepper Money Green Bond will be in alignment with the GBP and are expected to contribute to the decarbonization of Australia's residential building stock.

Pepper Money's Green Bond program helps support Pepper Money's business strategy and vision to provide clear and sustainable environmental benefits. Eligible Pepper Money Green Projects include:

- in 2018 and 2019, Pepper Money issued four Green Bonds to refinance a portfolio of existing mortgages used to fund Australian green residential buildings³.
- in early 2022, Pepper Money intends to again refinance a portfolio of existing mortgages on Australian green residential buildings through issuing a Green Bond.

A Pepper Money eligible Green Project means a project that comprises refinancing a pool of existing Pepper Money originated mortgages on green residential buildings that fall within the eligibility criteria below.

¹ Developed through the [International Capital Markets Association \(ICMA\)](#).

² Source: ICMA Green & Social Bond Principles Quarterly Newsletter November 2021.

³ Refinancing typically is well within three years of use of proceeds to ensure sufficient additional impact. However, exceptions may apply.

Eligibility criteria

<p>Green residential buildings</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)⁴ 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 2011⁵, as introduced on 1 May 2011, where construction was completed after 1 January 2013 are deemed to be eligible (6-star NatHERS⁶ 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 Wales⁷
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Pepper Money is committed to using the proceeds raised by its 2022 Green Bond to refinance a portfolio of existing mortgages on Australian energy efficient residential buildings that strictly comply with Australian statutory and regulatory requirements.

Pepper Money's policies, systems and processes ensures each loan is individually tracked from application and verifies all information relating to the asset through various independent and arm's length providers as part of the underwriting process. On an on-going basis, Pepper Money monitors these green assets through a suite of internal and external reporting.

⁴ 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.

⁵ 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.

⁶ 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.

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 they implement their own specific criteria.

3.2. Process for project evaluation and selection

Pepper Money has established a *Green, Social & Sustainability Bonds Investment Forum (GSSBIF)*, which incorporates representation from different areas (Treasury, Finance, Investor Relations and Human Resources) of Pepper Money to provide input on green, social and sustainability investment related matters.

The GSSBIF has oversight of the Framework and responsibility for the:

- addition of new eligible categories and the selection of eligible assets;
- review of potential Green Projects; and
- final approval of eligible Green Projects.

Additional guidance is provided by a specialist Second-Party Opinion (SPO) service for green and sustainability bonds.

A high-level overview of Pepper Money's process for the evaluation and selection of eligible assets is set out below.

Step 1.	Pepper Money's funding and analytics teams identify a pool of existing Pepper Money mortgages for earmarking against Pepper Money's proposed Green Bond proceeds;
Step 2.	Assets are reviewed for compliance with the Framework;
Step 3.	The GSSBIF discusses and considers eligible assets that may be included in a Pepper Money Green Bond portfolio;
Step 4.	Tracking and reporting on eligible assets and management of Green Bond proceeds are established. These assets are then approved for inclusion in the Green Project by the GSSBIF;
Step 5.	Updated opinion on the Framework provided by an independent SPO service;
Step 6.	Pre-issuance review provided by an independent SPO service, including assessment of the asset pool;
Step 7.	Pepper Money issues a Green Bond; and
Step 8.	Annual Green Bond Review is completed at calendar year end, including independent verification for all outstanding Pepper Money Green Bonds.

Management of risk

While the Environmental, Social and Governance (ESG) risk associated with Pepper Money's Green Bond program is deemed to be low⁸, Pepper Money is committed to the proactive management of risk. At Pepper Money ESG risk is a subset of operational risk, regulatory and compliance risk, strategic risk and reputational and conduct risk. Pepper Money has developed policies and procedures for identifying, assessing, and managing risk in its financial activities.

Pepper Money has attempted to minimise risk by providing a clear Framework which is overseen by the GSSBIF. If any risks arise relating to the Green Project, Pepper Money will take appropriate action according to the relevant legislation and internal Pepper Money policies. Furthermore, the GSSBIF

⁸ ESG risk is low because the Pepper Money eligible Green Project comprises refinancing a pool of existing Pepper Money originated mortgages on energy-efficient residential buildings, which are subject to strict statutory and regulatory requirements of Australian governments.

ensures that only eligible assets that follow strict eligibility criteria are included in each Project and that project costs are adequately covered.

3.3. Management of proceeds

For the current Green Project, Pepper Money has already fully funded mortgages outside of its Green Bond program. Through its securitisation program, Pepper Money will group mortgages together that fit Framework eligibility criteria and fund them as green assets immediately after raising new funds via a new Green Bond in the public debt markets.

Pepper Money's funding and analytics teams will track, and report eligible assets earmarked for inclusion in a Pepper Money Green Bond eligible portfolio via internal systems. This system will be used to internally verify monthly whether the net proceeds of all Pepper Money Green Bonds have been fully allocated against eligible assets. It is Pepper Money's intention to fully allocate the proceeds of any Green Bond within three years of issue, if not much sooner.

Pepper Money's internal systems are updated monthly and retain information on all Green Bond eligible assets earmarked against each individual Pepper Money Green Bond.

Any portion of the proceeds of any Pepper Money Green Bond issuance that has not been applied directly to finance or refinance eligible mortgage lending may be invested in accordance with Pepper Money's investment guidelines. This is, however, considered to be remote given the nature of Pepper Money's securitisation program.

3.4. Reporting

Pepper Money's Green Bond reports are available on the Pepper Money website (<https://www.pepper.com.au/investors/debt-investors/green-bonds>)

For all Pepper Money Green Bonds issued, Pepper Money will procure an SPO service to provide investors with assurance that any issuance complies with this Framework and the GBP.

Allocation reporting

Pepper Money will publish an independent annual Green Bond Review and annual Verification Report for all outstanding Pepper Money Green Bonds.

The GSSBIF will review and approve each annual Pepper Money Green Bond report prior to it being posted to the Pepper Money website.

This reporting package will typically include:

- net proceeds raised from each Pepper Money Green Bond;
- aggregate of funds drawn against each Pepper Money Green Bond eligible portfolio;
- where possible, qualitative and/or quantitative environmental impact reporting measures for the eligible assets within the Pepper Money Green Bond eligible portfolios, including disclosure of methodologies utilised in impact reporting;
- any unallocated Pepper Money Green Bond proceeds and details of any temporary investments; and,
- confirmation that the use of proceeds of any Pepper Money Green Bonds comply with this Framework.

Impact reporting

Pepper Money is aligned to the guidelines for impact reporting as set out by the GBP, as amended from time to time.

The disclosure of information in the Annual Review related to the use of proceeds, impact reporting, borrowers and assets financed will be made subject to Pepper Money's confidentiality obligations and the availability of information in the preparation of the annual Pepper Money Green Bond review.

This reporting will include a quantitative performance measurement of greenhouse gases reduced.

Internal reporting

Pepper Money will monitor the use of proceeds monthly to ensure they remain allocated to the eligible assets and will maintain and update monthly, internal reporting which will include the following details on an aggregate basis:

- the proceeds of each Green Bond issuance; and,
- the drawn funding against eligible assets included within the earmarked Green Bond portfolios.

On an annual basis, Pepper Money intends to publish on its website, a Pepper Money report on the allocation and impact of Green Bond proceeds and portfolio stratification.

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