

Second Party Opinion

Southern Housing Group Sustainable Finance Framework

Sept. 27, 2021

Southern Housing Group is a U.K.-headquartered not-for-profit housing association established in 1901. It is one of the largest housing associations in the South East of England and provides housing services to around 77,000 residents through over 30,000 homes across 80 local authorities. The range of housing options provided include traditional social housing, shared ownership, rental (both affordable and private market), and outright sales.

In our view, Southern Housing Group's sustainable finance framework, published in September 2021, is aligned with:

- ✓ Social Bond Principles, ICMA, 2021
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2021
- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021
- ✓ Sustainability Bond Guidelines, ICMA, 2021

Issuer's Sustainability Objectives

Southern Housing Group created its sustainable finance framework to fund eligible projects that will help it meet its sustainability objectives. The group's broad range of sustainability objectives encompass providing affordable housing while reducing the environmental impact by increasing energy efficiency and reducing running costs for customers. To achieve this, and in line with its 2021-2024 corporate plan, Southern Housing Group aims to develop new affordable and sustainable housing and care rooms, as well as renovate existing homes and business operations, with low-carbon and energy efficiency certifications.

The group's first environmental sustainability strategy ran from 2017 to 2020, with the aim of improving its environmental performance. This strategy is currently being enhanced to consider both social and environmental aspects of climate change. The updated strategy and associated targets are expected to be published in the first half of 2022. In addition, the group's Southern 360 strategies focus on enhancing the social impact and also consider how community and customer wellbeing can be improved, for example through financial advice, IT literacy, and employment readiness.

Furthermore, Southern Housing Group launched its sustainable workplaces strategy in 2017, under which it commits to improving its operating footprint, with a target of reducing carbon emissions 20% by 2025 and making all services carbon neutral by 2050. Along with this target, the group has also set targets to improve its operational recycling rates and water use by 2025.

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Second Party Opinion Summary

Use of proceeds

Alignment  Southern Housing Group's sustainable finance framework is aligned with this component of the Principles.

Score Satisfactory **Strong** Advanced

Southern Housing Group commits to using the net proceeds of the debt instruments issued under its sustainable finance framework to exclusively finance/refinance eligible green and social projects that fit within the eligible project categories it has identified, including affordable housing, access to essential services, employment generation, and green buildings. The group has also identified the high-level benefits of eligible social and the environmental projects.

Process for project selection and evaluation

Alignment  Southern Housing Group's sustainable finance framework is aligned with this component of the Principles.

Score **Satisfactory** Strong Advanced

Southern Housing Group clearly outlines the process and criteria to select eligible green and social projects. A dedicated sustainable finance group, comprising senior representatives from across divisions, is responsible for approving eligible projects in the context of Southern Housing Group's various environmental and social strategies. This dedicated team will also consider projects' compliance with the group's internal policies and standards, which are designed to manage perceived associated social and environmental risks.

Management of proceeds

Alignment  Southern Housing Group's sustainable finance framework is aligned with this component of the Principles.

Southern Housing Group commits to tracking funds allocated to eligible green and social projects on an annual basis until issuance proceeds have been fully allocated. Furthermore, the group has in place external verification of the tracking, which is to be facilitated by an external auditor. Unallocated proceeds will be invested in deposits, money market funds, and similar products, giving priority to ESG-aligned products where possible.

Reporting

Alignment  Southern Housing Group's sustainable finance framework is aligned with this component of the Principles.

Score **Satisfactory** Strong Advanced

Southern Housing Group commits to disclosing the allocation of funds across eligible projects on an annual basis through its allocation report, which will be subject to independent third-party review and made publicly available on the group's website. It will also provide selected environmental and social key performance indicators, which will be audited, and where possible also disclose the methodologies used to calculate these performance measures.

Framework Alignment Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our commitments opinion as satisfactory, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Southern Housing Group’s sustainable finance framework is aligned with this component of the Principles.

Commitments score

Satisfactory

Strong

Advanced

We consider Southern Housing Group’s overall use of proceeds commitments to be strong.

Southern Housing Group has committed to allocating the net proceeds of any bonds and loans issued under its framework exclusively to fund projects addressing various social and environmental issues. This includes the construction and acquisition of new affordable sustainable homes, supported and sheltered housing for the elderly, and refinancing green refurbishments of existing housing units and care rooms. Projects also include various social programs aimed at advancing employment and education opportunities for social housing tenants. We believe all eligible projects listed in the sustainable finance framework will contribute to sustainability objectives and are in line with the relevant categories of the Principles.

A strength of the framework is that the group has identified the social and environmental benefits of projects, including providing affordable and safe housing, with increased energy efficiency for the target population, disadvantaged individuals, and families. The framework also specifies a refinancing look-back period of 36 months and commits Southern Housing Group to disclosing the amount of proceeds used for financing versus refinancing. We regard as positive that the framework links each eligible project category to Southern Housing Group’s corporate strategy.

Process for project selection and evaluation

The Principles make optional recommendations for stronger structuring practices, which inform our commitments opinion as satisfactory, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Southern Housing Group’s sustainable finance framework is aligned with this component of the Principles.

Commitments score

Satisfactory

Strong

Advanced

We consider Southern Housing Group’s overall process for project selection and evaluation commitments to be satisfactory.

Southern Housing Group’s framework clearly outlines the selection process and criteria to select eligible green and social projects. All projects will comply with applicable environmental and social laws and regulations, and are also aligned with the group’s internal policies and standards, which aim to manage and mitigate environmental, social, and governance risks.

The sustainable finance framework also highlights the creation of a dedicated sustainable finance group (SF Group), which will consider the eligibility of assets and projects in the context of Southern Housing Group’s various strategies. These include its strategies on development, asset management, environmental sustainability and net zero carbon emissions, as well as its Southern 360 strategy. The SF Group comprises senior executives from across divisional departments, as well as representation and sustainability teams, which make up the ESG Working Group.

The identification of internal bodies responsible for the selection process is, in our view, a strength of the framework. However, although the framework defines standards for energy-efficient housing, such as energy efficiency certificates, the definitions used to identify social aspects of

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projects are less clear. Despite this, while not defined in the framework, Southern Housing Group defers to the affordable housing regulatory framework for identifying the target populations for the social aspect of projects.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

✓ Southern Housing Group's sustainable finance framework is aligned with this component of the Principles.

Southern Housing Group commits to tracking funds allocated to eligible green and social projects until the issuance proceeds have been fully allocated. Additionally, we view favorably that the group has in place external verification of the tracking, which is to be facilitated by an external auditor and provided in the allocation report. Furthermore, if assets are no longer considered eligible projects, they will be removed from the portfolio and replaced as soon as is reasonably practical, but within one year.

Southern Housing Group is permitted to use any unallocated funds for transactions, in line with its treasury policy. This includes investment in deposits, money market funds and other similar products, giving priority to ESG-aligned products where possible.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✓ Southern Housing Group's sustainable finance framework is aligned with this component of the Principles.

Disclosure score

Satisfactory

Strong

Advanced

We consider Southern Housing Group's overall reporting practices to be satisfactory.

Southern Housing Group has committed to reporting annually on the allocation of proceeds until all have been fully allocated. Allocation reporting will include, but is not limited to, the total amount of proceeds allocated to each eligible project, the share of financing versus refinancing of new and existing projects, and information on how unallocated proceeds are being managed. We view as positive that the group is committed to having an independent third party verify its allocation reporting after issuance.

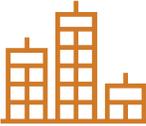
A strong feature of the framework, in our view, is the group's commitment to reporting selected environmental and social key performance indicators as part of its impact report, which will be externally reviewed. In addition, we believe the key performance indicators that will be disclosed for environmental projects demonstrate the projects' actual impact, for example the reduction of carbon emissions from new homes versus existing homes. However, performance indicators used to measure the actual impact of social projects could be more advanced, in our view. Furthermore, the group has not provided information on the expected impact of its projects.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Southern Housing Group's framework intends to contribute to the following SDGs:

| Use of proceeds | SDGs | | | |
|---|--|---|--|---|
| Affordable housing |  *1. No poverty |  *11. Sustainable cities and communities | | |
| Access to essential services |  *3. Good health and well-being |  11. Sustainable cities and communities | | |
| Socioeconomic advancement and empowerment |  *1. No poverty |  3. Good health and well-being |  *4. Quality education |  *8. Decent work and economic growth |
| Green buildings |  7. Affordable and clean energy | | | |

*The eligible project categories link to these SDGs in the ICMA mapping.

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