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Financial Institutions

ASSESSMENT

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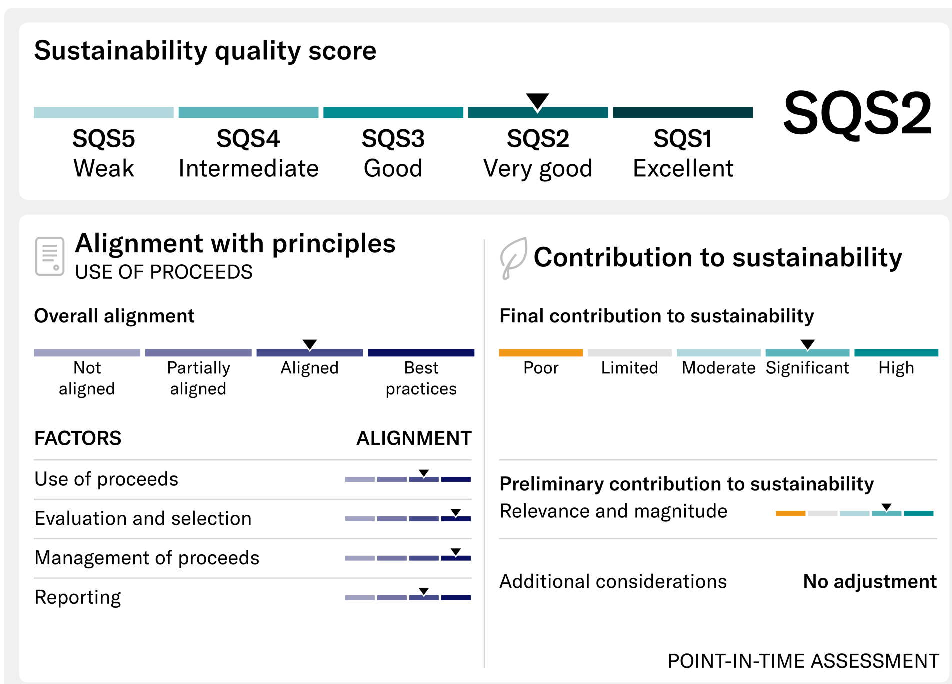
Sovereign Network Group

Second Party Opinion – Sustainable Finance Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (very good) to Sovereign Network Group's (SNG) sustainable finance framework dated August 2026. SNG has established a use-of-proceeds framework with the aim of financing projects across three eligible green categories and one social category. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2025, Social Bond Principles (SBP) 2025, and Sustainability Bond Guidelines (SBG) 2021, as well as the Loan Market Association, the Asia Pacific Loan Market Association and Loan Syndications & Trading Association's (LMA/APLMA/LSTA) Green Loan Principles (GLP) 2025 and Social Loan Principles (SLP) 2025. The framework demonstrates a significant contribution to sustainability.



Scope

We have provided a second party opinion (SPO) on the sustainability credentials of SNG's sustainable finance framework, including the alignment with the ICMA's GBP 2025, SBP 2025, and SBG 2021, as well as the LMA/APLMA/LSTA's GLP 2025 and SLP 2025. Under its use-of-proceeds framework, the issuer plans to finance projects across three eligible green categories and one social category, as outlined in Appendix 3 of this report.

Our assessment is based on the last updated version of the framework received on 12 August 2026, and our opinion reflects our point-in-time assessment[1] of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our Assessment Framework: Second Party Opinions on Sustainable Debt, published in October 2025.

Issuer profile

Sovereign Network Group (SNG) is a large not-for-profit housing association operating across London and the South of England. It was formed in October 2023 through the merger of Sovereign and Network Homes and manages more than 85,000 homes. The group's activities are predominantly focused on low-risk social housing lettings, complemented by a moderate exposure to market sales and some activity in market rent, providing a degree of income diversification.

SNG faces environmental and social risks that are typical of the UK housing association sector. Environmental risks are primarily linked to carbon transition, as more than a quarter of its housing stock will require retrofitting to meet EPC-C standards by 2035, which is expected to weigh on margins over time. Social risks are material, reflecting legal and regulatory requirements to improve building safety across existing stock, as well as the sector's exposure to tenant affordability and government social rent policy. These risks could materialise through pressure on operating margins and interest cover metrics.

Strengths

» The framework defines clear and measurable eligibility criteria across categories, supporting consistent identification and selection of assets aligned with environmental and social objectives.

» Governance and decision-making are underpinned by structured committees and dedicated ESG oversight, ensuring accountability and integration of sustainability considerations in investment processes.

Challenges

» The framework does not provide an ex-ante indication of the refinancing share, which fails short of the best market practice on transparency of use of proceeds.

» Limited granularity is provided on the allocation of proceeds across different performance thresholds (e.g. energy efficiency levels), which may constrain the assessment of the overall environmental impact.

Alignment with principles

SNG's sustainable finance framework is aligned with the four core components of the ICMA's GBP 2025, SBP 2025, and SBG 2021, as well as the LMA/APLMA/LSTA's GLP 2025 and SLP 2025. For a summary alignment with principles scorecard, please see Appendix 1.

- ☑ Green Bond Principles (GBP)
- ☑ Green Loan Principles (GLP)
- ☑ Social Bond Principles (SBP)
- ☑ Social Loan Principles (SLP)
- ○ Sustainability-Linked Bond Principles (SLBP)
- ○ Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned	Partially aligned	Aligned ▼	Best practices

Clarity of the eligible categories – BEST PRACTICES

SNG has clearly communicated the nature of expenditure and the eligibility and exclusion criteria for the eligible categories. The eligibility criteria for all the project categories have been defined in the framework. The issuer has specified the location of the eligible projects as England, United Kingdom (UK).

Clarity of the environmental or social objectives – BEST PRACTICES

The issuer has clearly defined the relevant environmental and social objectives associated with the eligible categories, focusing on climate change mitigation for the green categories and access to affordable housing for the social category. The issuer has referenced the United Nations' (UN) Sustainable Development Goals (SDGs) in articulating the objectives of the eligible categories, and the objectives are coherent with these recognized international standards.

Clarity of expected benefits – ALIGNED

SNG has identified relevant expected environmental and social benefits for all eligible categories. The benefits identified are measurable and will be quantified in the impact reporting. The issuer will disclose the actual refinancing share in its post-issuance investor report, but it has not committed to providing an estimated refinancing share prior to each issuance, falling short of the best practice. Investments under the framework will not be subject to a look-back period, as transparently mentioned in the framework.

Process for project evaluation and selection

Not aligned | Partially aligned | Aligned | Best practices

Transparency and clarity of the process for defining and monitoring eligible projects – BEST PRACTICES
SNG's decision-making process for the selection and evaluation of assets and projects is clearly structured and outlined in its framework, which will be publicly available. The Investment Committee (IC), with delegated authority from the Board, oversees the evaluation and approval of most development projects, while larger and more complex projects are reviewed by the Major Projects Committee (MPC). The IC comprises the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) as the Chair, the Chief Operating Officer and the Chief Investment and Development Officer. The MPC comprises two non-executive directors who are also Board members and up to one independent member. In addition, the ESG Team is responsible for overseeing the implementation and management of the Framework, including the evaluation, selection and monitoring of eligible projects. The ESG Team comprises senior members including the Chief Financial Officer (CFO), Treasury team and Built Environment Director, and is supported by subject matter experts across development and sustainability functions.

The issuer will monitor the compliance of selected assets and projects with both eligibility and exclusion criteria annually, throughout the life of the bond or loan. If a project fails to meet the eligibility criteria, is sold or faces divestment, it will be removed from the portfolio and replaced with one or more eligible projects of equivalent value as soon as reasonably possible. The process for identifying and managing environmental and social risks (E&S) is outlined in the framework.

Management of proceeds

Not aligned | Partially aligned | Aligned | Best practices

Allocation and tracking of proceeds – BEST PRACTICES
The issuer has defined a clear process for the management and allocation of proceeds in its framework, which will be publicly available. Proceeds will be held in SNG's main receipts account and tracked using internal reporting systems. This register will monitor the eligible assets and projects, and the allocation of an amount equal to the proceeds from bonds issued or loans borrowed to eligible assets and projects. The register will be periodically adjusted at least annually. Proceeds will be allocated within 24 months from issuance, in case of allocation towards construction of new social or affordable housing units this period may be extended to 36 months. Temporarily unallocated proceeds will be placed in accordance with the Treasury Management Policy, including being held as cash deposits, placed in sterling denominated money market funds or ESG bonds and deposits, as well as for the short-term repayment of other debt facilities, as disclosed in the framework.

Reporting

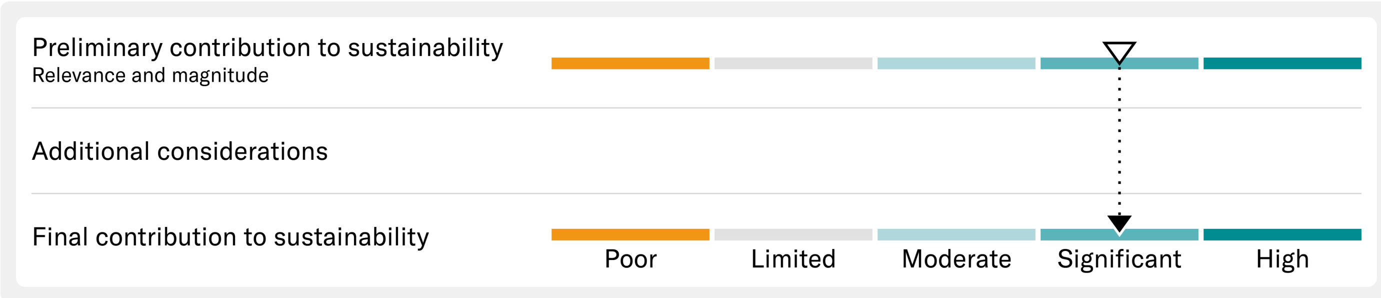
Not aligned | Partially aligned | Aligned | Best practices

Reporting transparency – ALIGNED
SNG will report annually on the allocation of proceeds until full allocation is achieved (and thereafter in the event of material reallocations), and will publish annual impact reporting through its Sustainability reporting, including broader social outcomes beyond the financed schemes, until maturity of the bond or full repayment of the loan. The report will be publicly available on the issuer's website, and will cover exhaustive information about the allocation of proceeds and impact reporting.

Further, the expected sustainable benefits are clear and relevant for all eligible categories. The calculation methodologies and assumptions used to report on environmental and social benefits will also be publicly disclosed in the relevant report. An external review provider will verify the allocation reporting through an assurance report, which will be available on SNG's website. The impact metrics will not be externally verified, which falls short of the best practices.

Contribution to sustainability

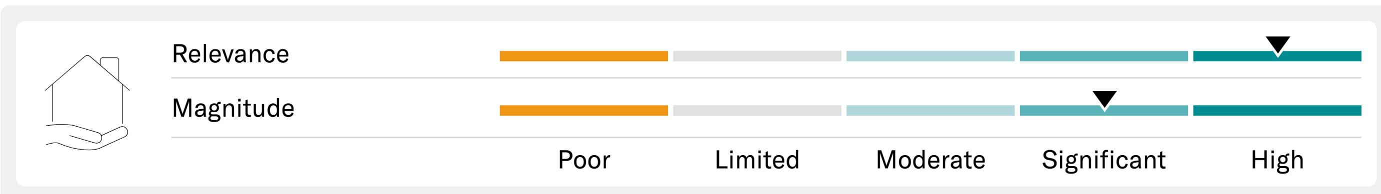
The framework demonstrates a significant overall contribution to sustainability. This reflects a preliminary contribution to sustainability score of significant, based on the relevance and magnitude of the eligible project categories, and we have not made an adjustment to the preliminary score based on additional contribution to sustainability considerations.



Preliminary contribution to sustainability

The preliminary contribution to sustainability is significant, based on the relevance and magnitude of the eligible project categories. The issuer has indicated that the majority of the shares is allocated towards affordable housing and green buildings, so we have weighted the categories accordingly for our assessment. A detailed assessment by eligible category has been provided below.

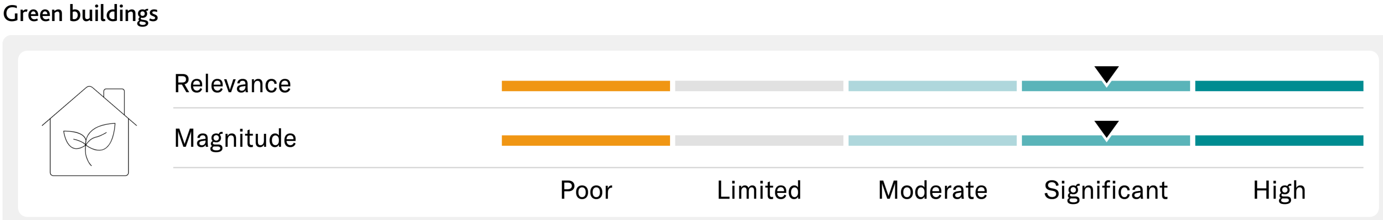
Affordable housing



The eligible projects address access to affordable housing, which is a highly relevant objective for the issuer, its sector and local context. Financing affordable housing is central to the issuer's core activities, which are exclusively focused on the provision of homes across London and the South of England. The category is highly material in the local context, given the structural shortage of affordable housing in England, significantly more acute in this area than nationally. Housing affordability pressures are acute, as reflected in a housing cost overburden rate of 40.47 in the United Kingdom.[2]

Projects financed under this category are expected to significantly contribute to increased access to affordable housing for low- and middle-income households. The target population includes vulnerable and underserved populations such as persons with disabilities and ageing individuals requiring adapted housing. In addition, it remains largely focused on those facing barriers to accessing quality housing, although the inclusion, as minority shares, of shared ownership introduces some exposure to higher-income segments, which are not the most in need. Affordability is ensured through below-market rents and robust safeguards, including income-based eligibility criteria and structured affordability assessments. In addition, the integration of quality design standards, accessibility features, and proximity to key services supports the overall social impact of the project.

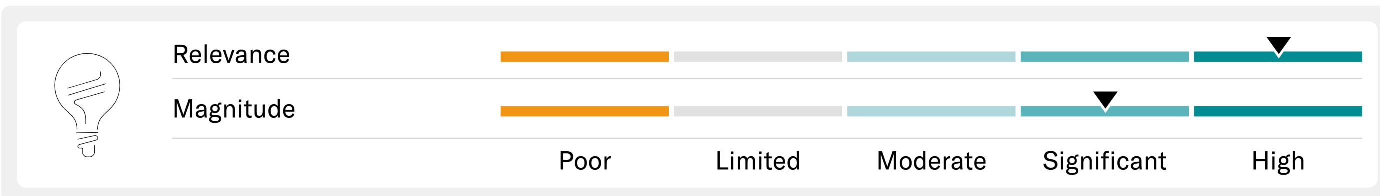
Green buildings



The relevance is considered significant. By investing in acquisition and construction of green building assets, the issuer addresses the objective of climate change mitigation by enhancing energy efficiency in the real estate sector. Addressing the substantial environmental footprint and energy consumption is a material consideration to the sector and the issuer, and is particularly relevant in the context of residential housing in the UK. The UK buildings and product use sector accounts for around 22% of territorial greenhouse gas emissions, largely driven by fossil-fuel-based space and water heating in residential buildings,[3] and decarbonization of buildings is critical to achieving the UK's legally binding target of at least a 68% reduction in emissions by 2030 and net zero by 2050[4]. However, by focusing on the financing on constructions of newly built units, the issuer responds partially to the climate change mitigation challenge for the real estate sector in the country.

Projects financed under this category significantly contribute to climate change mitigation-through energy performance standards and low construction-related emissions. The financed assets are expected to achieve strong operational energy performance, with buildings meeting EPC B or higher standards. This places them within the 15% top-performing assets nationally and is consistent with the long-term Carbon Risk Real Estate Monitor (CRREM) decarbonisation pathway[5], which is in line with market best practices. However, the issuer does not perform a full lifecycle carbon accounting assessment of the project, and does not commit to reducing embodied carbon emissions against business-as-usual base-case, therefore limiting the overall impact of the project.

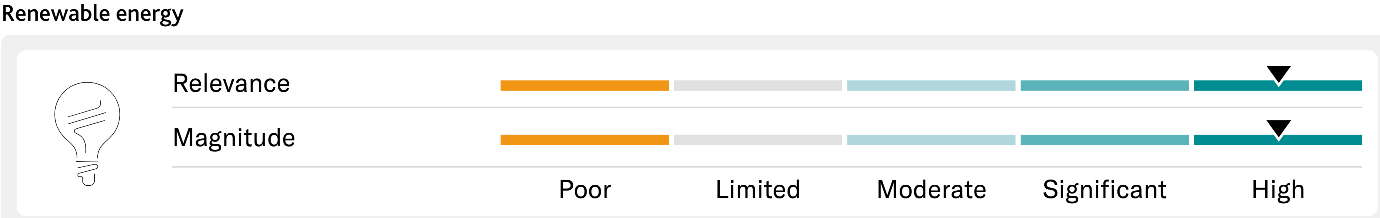
Energy efficiency



Expenditures into the decarbonisation of the real estate sector address climate change mitigation, which is highly relevant for the issuer, the housing sector and the local context, given the material contribution of buildings to energy consumption and greenhouse gas emissions in the UK. Energy efficiency is a material consideration for the real estate sector, given the expressive contribution of buildings to energy consumption and greenhouse gas emissions, and is particularly relevant in the context of residential housing in UK as buildings are among the largest energy consumers, with residential buildings accounting for around 17% of UK CO_2 emissions[6]. SNG integrates minimum EPC C standards, with EPC and EIR ratings of A or B targeted for a significant share of its assets, embedding energy efficiency considerations into project delivery. In the local context, the relevance is reinforced by the current efficiency profile of the English housing stock, where the majority of homes remain in mid-to low-efficiency EPC bands and around one-third lack an EPC rating altogether[7], underscoring the importance of energy efficiency improvements to meet the UK's legally binding net-zero target by 2050[8].

Projects financed under this category significantly contribute to climate change mitigation by enhancing the energy performance of existing buildings through targeted retrofit and efficiency measures. The financed assets are expected to deliver long-term positive environmental benefits by meeting thresholds such as at least 30% efficiency gains or two-notches upgrades to a minimum of EPC C or higher, or ranking within the top 15% of the national building stock. These criteria align with minimum market standards and long-term decarbonisation trajectories (CRREM 2050). While the criteria applied are robust and supported by the deployment of energy-efficient technologies (e.g. insulation, air-sourced heat pumps, and smart systems) as well as pilot initiatives for low-carbon solutions, they remain below the most ambitious benchmarks (e.g. EPC B or A, or 50% energy performance gain). In addition, the framework provides limited visibility on the allocation across individual measures performance thresholds and energy-efficient technologies.

Renewable energy



Expenditures into renewable energy address climate change mitigation, which is highly relevant for the issuer, the UK housing sector and the local context. Decarbonisation of residential buildings represents a core sustainability challenge for UK housing associations such as SNG, given their direct exposure to gas-related transition risks, including tightening regulatory requirements for home decarbonisation, the need for large-scale and phased retrofit programmes, and rising long-term energy costs that affect tenant affordability within the social and affordable housing segment[9] While the UK electricity grid has progressed in decarbonisation, with renewables supplying approximately 47%–51% of total electricity generation in 2024–2025 and an average grid carbon intensity of around 215 gCO_2e/kWh[10], the country's overall energy supply remains dominated by fossil fuels, with natural gas (38%) and oil products (36%) accounting for nearly three-quarters of total energy supply in 2024[11]. This imbalance is particularly pronounced in the residential sector, where heating remains predominantly gas-based, making household energy use a key bottleneck in the UK's net-zero transition[12]. The relevance of this category is further reinforced by the UK Climate Change Committee's assessment that the near-complete decarbonisation of the housing stock is central to meeting the UK's legally binding carbon budgets[13]. Against this backdrop, renewable energy deployment within SNG's housing portfolio directly targets an issuer-specific and material emissions source, supports the gradual displacement of fossil fuel-based energy consumption, and aligns with sector-wide transition requirements.

Projects financed under this category highly contribute to climate change mitigation, through renewable energy and low-carbon technologies dedicated to residential buildings. The eligible technologies, including solar PV, heat pumps, and small-scale wind systems, are among the best available solutions for decarbonising energy use, with lifecycle emissions typically well below 100 gCO_2/kWh. The application of minimum technical thresholds, such as dedicated PV capacity per dwelling and integration of efficient electrification systems, supports consistent and durable emissions reductions over time.

Additional contribution to sustainability considerations

We have not made an adjustment to the preliminary contribution to sustainability score based on additional considerations.

SNG has in place comprehensive processes to manage environmental and social risks, embedded through its Homes and Place Standard, which integrates environmental performance, asset quality, and affordability considerations across development, retrofit, and asset management decisions. Oversight is supported by monitoring tools, integration into strategic asset management processes, and transparent disclosure aligned with the Sustainability Reporting Standard for Social Housing. The issuer has also provided evidence-based assurance on tenant health and safety management, supported by up-to-date stock condition data and targeted investment planning. However, operational challenges remain in repairs and complaint handling. For example, Housing Ombudsman findings in 2024[14] and 2025[15] highlighted maladministration related to delays in repairs and complaint processes. SNG has acknowledged these issues, provided compensation, and implemented corrective actions, though further improvements are required to ensure consistent outcomes for tenants. According to the Regulator of Social Housing, SNG meets viability requirements and has the financial capacity to manage adverse scenarios.[16]

Lastly, we consider that the eligible projects are coherent with the issuer's sustainability strategy. The financed activities directly address SNG's most material sustainability challenges, including emissions and affordability impacts associated with its housing stock, through investments in energy efficiency, renewable energy integration, and the delivery of green and affordable homes. These activities support the "Towards a Greener Future" strategy and the organisation's pathway to net zero, including retrofit targets and development of energy-efficient homes designed to reduce long-term energy demand and costs. The issuer's strategy also links environmental objectives with social outcomes, such as reducing fuel poverty and enhancing community resilience.

Appendix 1 - Alignment with principles scorecard for SNG's Sustainable finance framework

Factor	Sub-factor	Component	Component score	Sub-factor score	Factor score
Use of proceeds	Clarity of the eligible categories	Nature of expenditure	A	Best practices	Aligned
		Definition of content, eligibility and exclusion criteria for nearly all categories	A		
		Location	A		
		BP: Definition of content, eligibility and exclusion criteria for all categories	Yes		
	Clarity of the objectives	Relevance of objectives to project categories for nearly all categories	A	Best practices	
		Coherence of project category objectives with standards for nearly all categories	A		
		BP: Objectives are defined, relevant and coherent for all categories	Yes		
	Clarity of expected benefits	Identification and relevance of expected benefits for nearly all categories	A	Aligned	
		Measurability of expected benefits for nearly all categories	A		
		BP: Relevant benefits are identified for all categories	Yes		
		BP: Benefits are measurable for all categories	Yes		
		BP: Disclosure of refinancing prior to issuance and in post-allocation reporting	No		
		BP: Commitment to communicate refinancing look-back period prior to issuance	Yes		
Process for project evaluation and selection	Transparency and clarity of the process for defining and monitoring eligible projects	Clarity of the process	A	Best practices	**Best practices**
		Disclosure of the process	A		
		Transparency of the environmental and social risk mitigation process	A		
		BP: Monitoring of continued project compliance	Yes		
Management of proceeds	Allocation and tracking of proceeds	Tracking of proceeds	A	Best practices	**Best practices**
		Periodic adjustment of proceeds to match allocations	A		
		Disclosure of the intended types of temporary placements of unallocated proceeds	A		
		BP: Disclosure of the proceeds management process	Yes		
		BP: Allocation period is 24 months or less	Yes		
Reporting	Reporting transparency	Reporting frequency	A	Aligned	**Aligned**
		Reporting duration	A		
		Report disclosure	A		
		Reporting exhaustivity	A		
		BP: Allocation reporting at least until full allocation of proceeds, and impact reporting until full bond maturity or loan payback	Yes		
		BP: Clarity and relevance of the indicators on the sustainability benefits	Yes		
		BP: Disclosure of reporting methodology and calculation assumptions	Yes		
		BP: Independent external auditor, or other third party, to verify the tracking and allocation of funds	Yes		
		BP: Independent impact assessment on environmental and social benefits	No		
				Overall alignment with principles score:	**Aligned**

Appendix 2 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The four eligible categories included in SNG's Sustainable finance framework are likely to contribute to three of the United Nations' Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	*Renewable energy*	7.2: Increase substantially the share of renewable energy in the global energy mix
	Green buildings *Energy efficiency*	7.3: Double the global rate of improvement in energy efficiency
GOAL 11: Sustainable Cities and Communities	*Affordable housing*	11.1: Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
GOAL 13: Climate Action	*Green buildings* *Energy efficiency*	Measures to reduce GHG emissions contribute to climate action under SDG 13

The United Nations' Sustainable Development Goals (SDGs) mapping in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the issuer/borrower's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 3 - Summary of eligible categories in SNG's Sustainable finance framework

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Affordable housing	Development, acquisition, construction modernisation and ownership of Social or Affordable Housing - Units to comply with the Government definition of Social or Affordable Housing, including Shared Ownership - May include other forms of supported or sheltered housing Target Populations: Persons living below the poverty line (defined as low-income households or individuals eligible for Social or Affordable Housing or other not-for-profit schemes / forms of housing administered by Sovereign), underserved (in terms of access to quality local affordable housing and financing), people with disabilities, and ageing populations	Access to affordable housing	- Number of new and existing properties constructed or refinanced by tenure - Number of development pipeline properties - Actual average rent charged versus private local market rent
Green buildings	Development, acquisition, construction or ownership of buildings Buildings (in any of the pre-construction, construction or completed phases) meeting or targeting at least one of the recognised certification standards: - EPC and EIR rating band A or B We target that at least 50% of homes financed will meet Sovereign's Homes and Place 'Very Good' standard, including all new developments	Climate change mitigation	- Number of new or refinanced buildings meeting specified criteria with a split provided against our Homes and Place classifications
Energy efficiency	Renovation, retrofit, modernisation improvement or maintenance of buildings Investments that result in or are expected to result in one of: - At least a 30% improvement in energy efficiency (as measured by a building's Standard Assessment Procedure (SAP) score or Primary Energy Demand(PED) - At least a two-notch uplift in the EPC to a minimum of EPC C - EPC and EIR ratings of A or B - Achieving a ranking within the top 15% of the national building stock following completion of works, expressed with reference to the EPC/SAP score, PED or a similar measure following completion of the works Capital and operating expenditures relating to whole house retrofit pilot projects exploring heat, energy generation, storage and digital controls solutions in order to inform energy efficiency improvements across our portfolio Installation of energy efficient devices in buildings Investments and installations which have the potential to reduce energy consumption of properties in use, including: - Measurement devices such as energy smart meters, smart thermostats - Energy efficient devices or appliances and technology such as LED lighting, A and B rated household appliances , communal heating systems not using fossil-fuels and sensing equipment - Battery storage system	Climate change mitigation	- Number of properties which have been renovated and achieved the standards outlined, split by EPC band - Forecast and performance in use measured outcomes for retrofit pilot projects - Avoided tCO2 emissions - Number and type of devices fitted

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Renewable energy	Acquisition, investment in or Integration of renewables into projects or the energy system for buildings, and the maintenance of such systems In accordance with Sovereign Homes and Place 'Very Good' standard: - On site solar photovoltaic or hot water panels, ground or air-source heat pumps and other wind systems operating at lifecycle emissions of less than 100gCO2/kWh	Climate change mitigation	Homes and Place Performance Metrics relating to: - Installed capacity (kWh) - Energy generated (kWh) - Avoided tCO2 emissions - Proportion of energy used from renewable sources (%)

Endnotes

1 Point-in-time assessment is applicable only on date of assignment or update.

2 OECD, OECD Affordable Housing Database, accessed May 2026.

3 GOV.UK, 2025 UK greenhouse gas emissions: provisional figures - statistical release, 2 April, 2026.

4 UK Parliament, UK's Updated 2030 Nationally Determined Contribution, 22 September, 2022.

5 CRREM Pathways, accessed in June 2026

6 IEA, Europe, accessed May 2026.

7 Department for Energy Security & Net Zero, National Energy Efficiency Data-Framework (NEED): Summary of Analysis, Great Britain, 2025, 26 June, 2025.

8 See endnote 4.

9 UK Parliament, Housing and net zero, 08 July, 2024.

10 Department for Energy Security & Net Zero, 2025 UK greenhouse gas emissions: provisional figures - statistical release, 2 April, 2026.

11 IEA, United Kingdom, accessed May 2026.

12 See endnote 9.

13 See endnote 8.

14 Housing Ombudsman Service, Sovereign Network Group (202224092), 28 February, 2024.

15 Housing Ombudsman Service, Sovereign Network Group (202220497), 16 January, 2025.

16 GOV.UK, Sovereign Network Group (4837) - Regulatory Judgement: 28 January 2026, accessed May 2026.

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