

# Second-Party Opinion

## Sovereign Sustainable Finance Framework

### Evaluation Summary

Sustainalytics is of the opinion that the Sovereign Sustainable Finance Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds, Green Buildings, Energy Efficiency, Renewable Energy, Clean Transportation, Terrestrial and Aquatic Biodiversity, Affordable Housing and Access to Essential Services are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 8, 9, 10, 11 and 15.



**PROJECT EVALUATION AND SELECTION** Sovereign's Group Investment and Major Project committees will oversee the internal process for evaluating and selecting projects. The committees are composed of members of Sovereign's executive team and board and oversee Sovereign's environmental and social risk management processes for all allocations under the Framework. Sovereign's ESG Team oversees the implementation and management of the Framework. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** Sovereign will use its Sustainable Finance Asset Register to track all projects, investments and expenditures into eligible projects, as approved by the committees and the ESG Team. Unallocated gross proceeds will be managed in accordance with Sovereign's treasury management policy. This is in line with market practice.



**REPORTING** Sovereign commits to report annually on allocation of proceeds until full allocation. The report will detail total proceeds allocated to each eligible project category, a breakdown of proceeds allocated to new and existing projects, the share of financing versus refinancing, and the balance of unallocated proceeds. In addition, Sovereign intends to report on relevant impact metrics. Both the allocation and impact reports are expected to be available on Sovereign's website. Sustainalytics considers the allocation and impact reporting as aligned with market practice.



<b>Evaluation Date</b>	November 22, 2023
<b>Issuer Location</b>	Basingstoke, UK

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## Introduction

Sovereign Network Group formerly Sovereign Housing Association is a not-for-profit housing association which together with its subsidiary Sovereign Housing Capital (“Sovereign” or the “Issuer”) provides social housing in south and south-west England. Headquartered in Basingstoke, UK, Sovereign owns and manages approximately 82,000 residential units.

Sovereign has developed the Sovereign Sustainable Finance Framework dated November 2023 (the “Framework”) under which it intends to facilitate the issuance of green, social and sustainability bonds, loans, private debt placements and revolving credit facilities,<sup>1</sup> and use the proceeds to finance and refinance, in whole or in part, existing and future affordable housing, green buildings, energy efficiency, renewable energy and clean transportation projects that are expected to have a positive impact on the environment or social well-being of the communities in which Sovereign operates. The Framework defines eligibility criteria in seven areas:

1. Green Buildings
2. Energy Efficiency
3. Renewable Energy
4. Clean Transportation
5. Terrestrial and Aquatic Biodiversity
6. Affordable Housing
7. Access to Essential Services

Sovereign engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2023 (SBP),<sup>2</sup> Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP)<sup>3</sup>. The Framework has been published in a separate document.<sup>4</sup>

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>5</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 Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, as administered by LMA, APLMA, and LSTA;
- 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 1.15, 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 Sovereign’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. Sovereign representatives have confirmed (1) they understand it is the sole responsibility of Sovereign to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with

<sup>1</sup> For revolving credit facilities, Sovereign will continue to report until the maturity of such facilities.

<sup>2</sup> The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

<sup>3</sup> The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

<sup>4</sup> The Sovereign Sustainable Finance Framework is available on Sovereign Housing Association’s website at: <https://www.sovereign.org.uk/investors>

<sup>5</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.

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 Sovereign.

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 and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the allocation of the bond and loan 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 Sovereign has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Sovereign Sustainable Finance Framework

Sustainalytics is of the opinion that the Sovereign Sustainable Finance Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories - Green Buildings, Energy Efficiency, Renewable Energy, Clean Transportation, Terrestrial and Aquatic Biodiversity, Affordable Housing, Access to Essential Services - are aligned with those recognized by the GBP, SBP, GLP and SLP.
  - Sovereign intends to refinance both capital and operating expenditures under the Framework. Sovereign has established a look-back period of 36 months for refinancing operating expenditures. Sustainalytics considers this to be in line with market practice.
  - Under the Green Buildings category, Sovereign may finance the development, acquisition and construction of new buildings according to the following eligibility criteria:
    - Buildings that have received at least an energy performance certificate (EPC) B or higher and a minimum environmental impact rating of B. This is aligned with market practice.<sup>6</sup>
    - Buildings that have received a BREEAM certification of Excellent or better.
    - Sustainalytics considers investments in green buildings that meet the above-described standards to be aligned with market expectation.
  - Under the Energy Efficiency category, the Issuer intends to finance the renovation, retrofit, modernization, improvement and maintenance of buildings that meet one of the following eligibility criteria:
    - Buildings that belong in the top 15% energy-efficient buildings of the national building stock.
    - Buildings that have obtained or are expected to obtain: i) at least a two-level increase in its EPC to achieve a minimum C; or ii) a one-level increase to achieve A or B and a minimum environmental impact rating of B.

<sup>6</sup> As of April 2022, the energy performance of residential buildings with an EPC of B or higher was in the top 15% of properties in the UK. UK Government, "Live tables on Energy Performance of Buildings Certificates", (2023) at: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates#epcs-for-all-domestic-properties-existing-and-new-dwellings>

- Renovation and refurbishment projects that achieve improvements in energy efficiency or net primary energy demand of at least 30% in relation to the pre-renovation state.
- Purchase and installation of equipment to reduce energy consumption, such as smart meters and smart thermostats, energy-efficient household appliances, LED lighting, energy use monitoring and battery storage systems. These projects may be part of whole house retrofit pilot projects.<sup>7</sup>
- Household appliances in the highest two energy efficiency classes under EU Regulation 2017/1369. Sustainalytics notes that Sovereign's reference to EU energy labels to define eligibility in this category is consistent with the EU Taxonomy.
- Sovereign has confirmed that no technologies financed under this category will be fossil fuel powered.
- Under the Renewable Energy category, Sovereign may invest in renewable energy generation projects related to solar photovoltaic power, hot water panels, ground or air-source heat pumps and wind energy generation, each operating at a life cycle emissions intensity below 100 gCO<sub>2</sub>/kWh.
  - Sustainalytics notes that heat pumps offer an energy-efficient heat transfer alternative to conventional systems and the Framework restricts financing of heat pumps that use low-GWP refrigerants, such as R32 and R290, which is in line with market practice. Nevertheless, Sustainalytics recommends Sovereign to promote robust refrigerant leak control, detection and monitoring while ensuring recovery, reclamation, recycling or destruction of refrigerants at end of life.
  - Sustainalytics considers this to be aligned with market practice.
- Under the Clean Transportation category, the Issuer intends to finance the installation of technology and infrastructure to facilitate access to zero-emission modes of transport and public transportation, including electric vehicle charging points, cycling racks and cycle paths on Sovereign developments, as well as the lease or purchase of vehicles with zero CO<sub>2</sub> tailpipe emissions.
  - Sustainalytics considers the expenditures under this category as aligned with market practice.
- Under the Terrestrial and Aquatic Biodiversity Conservation category, Sovereign will finance expenditures related to improving the biodiversity of land that is part of or in the vicinity of Sovereign's developments. Specific expenditures may include flora and fauna preservation, the mitigation of risks related to invasive species and the planting of trees and shrubbery.
  - Biodiversity net gains resulting from activities under this category will be tracked using the Natural England Biodiversity Net-Gain Calculator Metric 3.0,<sup>8</sup> with the goal of achieving at least a 10% improvement in net biodiversity at each land development site. Sustainalytics notes that such biodiversity improvements are required under UK law for all new land developments, with enforcement beginning in November 2023.<sup>9</sup>
- Under the Affordable Housing category, Sovereign intends to finance projects in the UK involving the development, acquisition, construction and retrofit of social housing projects, supporting home ownership, social and affordable home rentals, as well as other housing or shelter support.
  - To support home ownership, Sovereign intends to target housing projects under the UK Government's Shared Ownership Scheme.<sup>10</sup> Under this scheme, households with an annual income of up to GBP 80,000 (or GBP 90,000 in London) or first-time buyers are eligible to purchase shares of homes, with the remaining ownership shares being owned by a landlord. When facilitating the financing of home ownership under this programme, the Issuer applies its own annual income threshold of GBP 65,000. In Sustainalytics' opinion, in order to ensure a contribution to increasing access to affordable housing, it is best practice to define a target population with an upper threshold at or below the annual median income at the municipal or regional level. Although the Framework follows the government's income cap and set an additional threshold for new properties, these are still above the median fifth decile annual gross

<sup>7</sup> Sovereign defines whole house retrofit pilot projects as those improving on heating, renewable energy generation and storage and digital controls that inform energy efficiency.

<sup>8</sup> Natural England, "The Biodiversity Metric 3.1 (JP039)", at: <http://publications.naturalengland.org.uk/publication/6049804846366720>

<sup>9</sup> UK Public General Acts, "Environmental Act – 2021", at: <https://www.legislation.gov.uk/ukpga/2021/30/enacted>

<sup>10</sup> UK Government, "Shared Ownership", at: <https://www.ownyourhome.gov.uk/scheme/shared-ownership/>

household income in the UK, which was GBP 44,717 (EUR 51,900) in FY2022.<sup>11</sup> Given the relatively high thresholds used by the UK government's Shared Ownership scheme, Sustainalytics encourages Sovereign to report on the positive social impact of its proceeds targeted to below-median-income populations, to the extent possible.

- For its social and affordable rental properties, Sovereign provides rental housing to individuals placed on the housing register by a local authority. Eligibility for social housing in relation to household income levels is determined by the local authority, with rental pricing levels for both social and affordable rent governed nationally, reflecting local and regional market rent levels and incorporating various adjustments applied per the UK Department for Levelling Up, Housing & Communities. Sustainalytics notes that social and affordable housing in the UK is characterized by rents of up to 80% of the area market rental rate, with social housing rents generally limited to 60% of market rental rates.<sup>12</sup> Sustainalytics considers these housing programmes as providing positive social impacts.
- Sovereign will finance the provision of shelter services for marginalized and disadvantaged groups, including people with disabilities, homeless individuals, seniors and victims of domestic violence. These services will be made accessible to all regardless of ability to pay. Sustainalytics considers the financing of these activities as expected to provide social benefits.
- Under the Access to Essential Services category, the Issuer may finance the provision of customer support schemes and services that facilitate health, well-being and community engagement for the residents of its affordable housing developments, including financial support services, entrepreneurial support and career skill development, digital inclusion training and equipment, and mental and physical health support. Sovereign has confirmed that these support services will be made accessible to all regardless of ability to pay.
  - Financial support services will consist of advice on the topics of debt relief and personal finance.
  - Projects to support digital inclusion will consist of skills training and development programmes to the target population. Sustainalytics considers enhancing access to public and free education as socially impactful.
  - Support services provided by third-party health and well-being professionals.
  - Sustainalytics considers the activities in this category as expected to provide social benefits.
- Project Evaluation and Selection:
  - Sovereign has in place internal processes for the evaluation and selection of projects by its Group Investment Committee (IC), which is comprised of the CEO, the CFO as the Chair, the CCO, the Chief Investment and Development Officer, the Executive Director of Development and the Deputy Chief Executive Officer. This committee has been delegated its authority by Sovereign's board of directors. Sovereign's Major Project Committee (MPC) will carry out the evaluation, selection and monitoring processes are carried out for larger and complex project. The MPC is comprised of at least three members: a minimum of two non-executive directors who are also board members and one additional independent member. Further, the implementation and management of the Framework is carried out by Sovereign's ESG Team, comprised of the CFO, Treasury team, and the Construction and Technical Director, which ensures alignment of all projects with the Framework and the Issuer's corporate plan and its key standards.
  - Project selection carried out by the committees involves the review of: i) any reported environmental and social risks associated with investments to ensure all projects are appropriately managed and mitigated, and ii) progress in compliance with relevant laws, standards and regulations. Sustainalytics considers these environmental and social risk management systems to be in line with market practice.
  - Based on the establishment of cross-functional project selection committees that involve board oversight, as well as the Framework-specific oversight carried out by the ESG team, Sustainalytics considers this process to be in line with market practice.

<sup>11</sup> UK government, Office for National Statistics, "The effects of taxes and benefits on household income, disposable income estimate", at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/householddisposableincomeandinequality>

<sup>12</sup> UK Parliament – House of Commons Library, "What is affordable housing?", at: <https://commonslibrary.parliament.uk/research-briefings/cbp-7747/>

- Management of Proceeds:
  - The proceeds from any issuance under the Framework will be allocated into the Issuer’s main receipts account, where the ESG Team will track and monitor an equivalent amount using internal reporting systems until full allocation.
  - Sovereign’s Sustainable Finance Asset Register will be used to track all projects, investments and expenditures into eligible projects, as approved by the committees and the ESG Team, and allocated within 24 months of issuance. The relevant oversight bodies will also ensure that the amounts allocated to eligible projects are, subject to initially achieving full allocation, at all times equal to or in excess of the outstanding proceeds of instruments issued under the Framework.
  - Unallocated proceeds will be managed in accordance with Sovereign’s Treasury Management Policy, held in cash deposits, GBP denominated money market funds, or ESG bonds and deposits. This process ensures that the proceeds will not be used at any time to fund investments that support activities insensitive sectors, as defined by the banks Sovereign works with.
  - Based on the timeframe for full allocation and the disclosure of temporary allocation of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - Sovereign will report annually on the allocation of proceeds from any instruments issued under the Framework until full allocation, and when material reallocations have taken place during the term of an outstanding instrument.
  - The report will detail total proceeds allocated to each eligible project category. It will also include a breakdown of proceeds allocated to new and existing projects, the share of financing versus refinancing and the balance of unallocated proceeds.
  - Impact reporting will include indicators such as the number of newly completed buildings meeting the outlined green building criteria, the number of properties retrofitted for energy efficiency and the achieved EPC band, installed renewable energy capacity, low or zero-emission vehicles as a percentage of the total fleet, and the number of financed affordable homes.
  - Allocation and impact reports will be made available annually on Sovereign’s website.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market expectation.

### Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Sovereign Sustainable Finance Framework aligns with the four core components of the GBP, SBP, GLP and SLP. For detailed information please refer to Appendix 1: Green, Social and Sustainability Bond/ Green, Social and Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Strategy of Sovereign

### Contribution to Sovereign’s sustainability strategy

Sustainalytics is of the opinion that Sovereign demonstrates a commitment to sustainability through its commitment to achieve net zero emissions by 2050 by tracking its scope 1, 2 and 3 GHG emissions under its Streamlined Energy & Carbon and Carbon-Balance reports. Sovereign’s sustainability strategy is underpinned by its Homes and Place standard, consisting of a scorecard that forms the basis of a specification for new developments and Sovereign’s standard house types.<sup>13</sup> Sovereign also follows The Good Economy’s Sustainability Reporting Standard (SRS) for social housing, which aims to align with the relevant social housing principles of the UN SDGs and those of ICMA, the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI) and the Task Force on Climate-Related Financial Disclosures (TCFD).<sup>14</sup> Sovereign reports on ESG issues following SRS’s proposed set of 12 themes that are divided into 48 criteria.

- Sovereign supports its customers in the transition to low-carbon energy by providing energy switching initiatives and advice through its partner Pocket Power, a social enterprise dedicated to helping individuals save money, with a focus on low-income families. Sovereign also guides its customers on sustainable living practices through an education and awareness programme. The

<sup>13</sup> Sovereign Housing Association, “ESG Report 2023”, at: [https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign\\_ESG%20Report%202023\\_FINAL.pdf](https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign_ESG%20Report%202023_FINAL.pdf)

<sup>14</sup> The Good Economy, ESG Social Housing Working Group, “The Sustainability Reporting Standard for Social Housing”, (2020), at: [https://thegoodeconomy.co.uk/resources/reports/SRS\\_final-report\\_2020-11-16-094356.pdf](https://thegoodeconomy.co.uk/resources/reports/SRS_final-report_2020-11-16-094356.pdf)



Issuer's employment and skills team has also supported 960 customers and secured 302 jobs. In FY2022/23, Sovereign reported investments of GBP 3.5 million in community social projects, generating GBP 68 million in social value, according to HACT's Social Value measurement.<sup>15,16,17</sup>

- Sovereign has committed to implementing biodiversity management practices, including improving biodiversity in and around each development by setting a minimum threshold of 10% biodiversity net gain and encouraging at least a 15% gain through increased investments and expenditures for new projects. By 2026, Sovereign has also committed to developing a pathway to net zero carbon emissions for existing homes and has established a target of building exclusively net zero-ready new homes. Further, the Issuer targets an increase in the energy efficiency of all its homes to above EPC C by 2035 and to have Standard Assessment Procedure (SAP) scores greater than 86 points for all homes by 2047.<sup>18,19,20</sup>
- Sovereign plans on growing its output of affordable homes by building 2,400 homes per year by FY2026/27. In FY2022/23 the Issuer completed the construction of 1,672 new homes, of which 94% consist of affordable rent units.<sup>21</sup> The Issuer also plans on researching methods of developing town centres by creating mixed-use sites combining affordable housing with retail. By 2026, Sovereign plans to be developing a minimum of two schemes for mixed housing and retail.<sup>22,23</sup>

Sustainalytics is of the opinion that the Sovereign Sustainable Finance Framework is aligned with the Issuer's overall sustainability strategy and initiatives and will further the Issuer's action on its key sustainability priorities.

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

Sustainalytics recognizes that the use of proceeds of issuances under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects could affect employee occupational health and safety, stakeholder participation and community engagement, and emissions and waste generated during construction.

Sustainalytics is of the opinion that Sovereign is able to manage and mitigate potential risks through implementation of the following:

- To address occupational health and safety risks, Sovereign has in place its Health, Safety and Environment (HSE) Policy, which aims to protect employees, residents and contractors in its operations. Sovereign's Chief Executive Officer is responsible for the implementation of the HSE Policy across Sovereign's social housing projects.<sup>24</sup>
- Sovereign addresses stakeholder rights and community engagement through its Resident and Board Partnership (RBP),<sup>25</sup> which allows customers to participate in the development of Sovereign's strategy, policies and service standards. Moreover, Sovereign has adopted the National Housing

<sup>15</sup> Sovereign Housing Association, "ESG Report 2023", at: [https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign\\_ESG%20Report%202023\\_FINAL.pdf](https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign_ESG%20Report%202023_FINAL.pdf)

<sup>16</sup> Sovereign Housing Association, "Corporate Plan 2021-2026", at: <https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/aec30680-01b6-4ddf-9379-617ce2a1b59f/CORP-31562%20Corporate%20plan%202021-2026%20V1.pdf>

<sup>17</sup> Housing Associations' Charitable Trust, "Create more impact through your Social Value", at: <https://hact.org.uk/how-we-can-help/social-value/>

<sup>18</sup> SAP is the methodology used to assess a dwelling's environmental performance. The SAP underpins EPC, as the SAP scores form the EPCs. UK Government,

Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy, "Standard Assessment Procedure", (2022), at: <https://www.gov.uk/guidance/standard-assessment-procedure>

<sup>19</sup> Sovereign Housing Association, "ESG Report 2023", at: [https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign\\_ESG%20Report%202023\\_FINAL.pdf](https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign_ESG%20Report%202023_FINAL.pdf)

<sup>20</sup> Sovereign Housing Association, "Corporate Plan 2021-2026", at: <https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/aec30680-01b6-4ddf-9379-617ce2a1b59f/CORP-31562%20Corporate%20plan%202021-2026%20V1.pdf>

<sup>21</sup> According to the UK Regulator of Social Housing, the affordable rent for a new tenancy is allowed to be 80% of the market rent, while the social rent can be a maximum of 10% of the formula rent. More information available at: <https://www.gov.uk/government/publications/rent-standard/rent-standard-april-2020#fnref:ii>

<sup>22</sup> Sovereign Housing Association, "Corporate Plan 2021-2026", at: <https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/aec30680-01b6-4ddf-9379-617ce2a1b59f/CORP-31562%20Corporate%20plan%202021-2026%20V1.pdf>

<sup>23</sup> Sovereign Housing Association, "ESG Report 2023", at: [https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign\\_ESG%20Report%202023\\_FINAL.pdf](https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign_ESG%20Report%202023_FINAL.pdf)

<sup>24</sup> Sovereign Network Group provided the "Health, Safety and Environment Policy" (2023) to Sustainalytics.

<sup>25</sup> Sovereign Housing Association, Accessibility Tools, "Resident and Board Partnership", at: <https://www.sovereign.org.uk/advice-and-guides/my-community/resident-engagement/resident-board-partnership>

Federation Together with Tenants initiative, which focuses on strengthening the relationship between residents and housing associations.<sup>26,27</sup>

- Sovereign operates solely within the United Kingdom, which is recognized as a Designated Country under the Equator Principles, indicating the presence of strong environmental and social governance systems, as well as institutional capacity designed to protect the local environment and communities.<sup>28</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Sovereign 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

All seven use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP or SLP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

#### Increasing affordable units supply in the UK

Although the UK has the highest share of social housing in the OECD,<sup>29</sup> it is experiencing a significant housing shortage overall. An estimated 17.5 million people in England alone live in unaffordable, insecure, overcrowded or otherwise unsuitable homes.<sup>30</sup> With more than 1.1 million people on the waiting list for affordable (including social and intermediate) housing,<sup>31</sup> the UK government has set a goal of building 300,000 houses annually,<sup>32</sup> dedicating part of this goal to affordable housing. The Affordable Homes Programme 2021-2026,<sup>33</sup> for example, aims to deliver 130,000 affordable homes outside London by 2026, with a GBP 7.39 billion budget through Homes England, and another GBP 8.8 billion for London in partnership with the Greater London Authority.<sup>34,35</sup>

The social housing sector, which accounts for approximately 15% of all homes in the UK,<sup>36,37</sup> presents a significant opportunity for providing affordable homes and significantly reducing CO<sub>2</sub> emissions. Among the demonstrated direct links between energy efficiency improvements and affordability, energy efficiency investments by landlords and housing associations have been shown to reduce operating costs and improve affordability for low-income tenants.<sup>38</sup>

Based on the above, Sustainalytics believes that Sovereign's financing of affordable housing and green buildings is expected to increase access to energy-efficient housing for low-income households in the UK.

#### Achieving net zero emissions buildings in the UK

GHG emissions from buildings account for 34% of the UK's total emissions,<sup>39</sup> which is slightly lower than the European average of 35%.<sup>40</sup> As of 2020, the UK was the source of approximately 1.1% of global GHG

<sup>26</sup> Sovereign Housing Association, "ESG Report 2023", at: [https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign\\_ESG%20Report%202023\\_FINAL.pdf](https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/1d5ebfd2-ee92-4182-8043-2bc1de243a8b/Sovereign_ESG%20Report%202023_FINAL.pdf)

<sup>27</sup> National Housing Federation, "Together with Tenants", at: <https://www.housing.org.uk/our-work/together-with-tenants/>

<sup>28</sup> Equator Principles, "EP4", (2020), at: [https://equator-principles.com/app/uploads/The-Equator-Principles\\_EP4\\_July2020.pdf](https://equator-principles.com/app/uploads/The-Equator-Principles_EP4_July2020.pdf)

<sup>29</sup> OECD, "Affordable Housing Database", at: <http://www.oecd.org/housing/data/affordable-housing-database/>

<sup>30</sup> Shelter England, Press releases and statements, "17.5 million people now impacted by the housing emergency", (2021), at:

[https://england.shelter.org.uk/media/press\\_release/17\\_5million\\_people\\_now\\_impacted\\_by\\_the\\_housing\\_emergency](https://england.shelter.org.uk/media/press_release/17_5million_people_now_impacted_by_the_housing_emergency)

<sup>31</sup> National Housing Federation, "People in housing need 2021", (2021) at: <https://www.housing.org.uk/resources/people-in-housing-need-2021/>

<sup>32</sup> UK Government, Ministry of Housing, Communities and Local Government, "Planning for the future, White paper August 2020", at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/907647/MHCLG-Planning-Consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907647/MHCLG-Planning-Consultation.pdf)

<sup>33</sup> UK Government, Ministry of Housing, Communities and Local Government, "Jenrick unveils huge £12 billion boost for affordable homes at:

<https://www.gov.uk/government/news/jenrick-unveils-huge-12-billion-boost-for-affordable-homes>

<sup>34</sup> UK Government, "Jenrick unveils huge £12 billion boost for affordable homes", (2020), at: <https://www.gov.uk/government/news/jenrick-unveils-huge-12-billion-boost-for-affordable-homes>

<sup>35</sup> London City Hall, "Housing and Land", at: <https://www.london.gov.uk/programmes-strategies/housing-and-land>

<sup>36</sup> UK Government, Climate Change Committee, "Taking stock of the UK Government's Heat and Buildings Strategy", at:

<https://www.theccc.org.uk/2022/03/09/taking-stock-of-the-uk-governments-heat-and-buildings-strategy/>

<sup>37</sup> UK Government, Ministry of Housing, Communities and Local Government, "Social housing sector stock and rents statistics show impact of pandemic, Regulator of Social Housing", at: <https://www.gov.uk/government/news/social-housing-sector-stock-and-rents-statistics-show-impact-of-pandemic>

<sup>38</sup> Sustainable Homes, "Housing 2050", (2020), at: <https://shiftenvironment.co.uk/news/housing-2050-how-the-uk-social-housing-sector-can-meet-the-challenge-of-climate-change/>

<sup>39</sup> Government of UK, Climate Change Committee, "Factsheet: Buildings", at: <https://www.theccc.org.uk/wp-content/uploads/2014/08/Fact-sheet-buildings-updatedJuly-2015.pdf>

<sup>40</sup> European Environment Agency, Analysis and data, Indicators, "Greenhouse gas emissions from energy use in buildings in Europe", (2023), at: <https://www.eea.europa.eu/en/analysis/indicators/greenhouse-gas-emissions-from-energy>



emissions,<sup>41</sup> of which 17% were attributed to residential buildings.<sup>42</sup> Half of the UK’s emissions from the building sector are direct emissions from the combustion of gas for heating, while the other half comes from electricity usage.<sup>43</sup> According to the Climate Change Committee – a UK government advisory body – two solutions to address the issue of GHG emissions from buildings are to increase the energy efficiency of the buildings themselves and to stimulate the adoption of low-carbon heating options.<sup>44</sup>

Despite having reduced GHG emissions by 29% between 2010 and 2019,<sup>45</sup> the UK must accelerate the decarbonization of the housing sector in order to meet its 2050 target.<sup>46</sup> In 2018, the UK government launched the Clean Growth Strategy,<sup>47</sup> which includes a goal to have 100% of UK homes achieve an EPC C or above by 2030. As of June 2023, 87% of new domestic properties in England and Wales had an EPC B or above.<sup>48</sup> In 2020, the UK government proposed the Build Back Greener strategy,<sup>49</sup> announcing a series of priorities that include a GBP 6 billion (EUR 6.9 billion) spending package to improve the energy efficiency of buildings.<sup>50</sup> These measures form part of the UK strategy to achieve its net zero GHG emissions 2050 target.<sup>51</sup>

Sustainalytics is of the opinion that the assets financed under the Framework can be expected to contribute to improving the energy efficiency of buildings in the UK and assisting the country in meeting its energy savings and national GHG emissions targets.

### Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Sovereign Sustainable Finance Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green 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
Energy Efficiency	7 Affordable and clean energy	7.1 By 2030, ensure universal access to affordable, reliable and modern energy services
Renewable Energy	7 Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11 Sustainable cities and communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport,

<sup>41</sup> UK Parliament, “UK and global emissions and temperature trends”, (2020), at: <https://commonslibrary.parliament.uk/uk-and-global-emissions-and-temperature-trends/#:~:text=In%202020%2C%20global%20average%20temperatures,economic%20downturns%20and%20oil%20shocks>.

<sup>42</sup> Government of UK, Department of Energy Security & Net Zero, “2022 UK greenhouse gas emissions, provisional figures”, (2023), at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1147372/2022\\_Provisional\\_emissions\\_statistics\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147372/2022_Provisional_emissions_statistics_report.pdf)

<sup>43</sup> UK Climate Change Committee, “Taking stock of the UK Government’s Heat and Buildings Strategy”, at: <https://www.theccc.org.uk/2022/03/09/taking-stock-of-the-uk-governments-heat-and-buildings-strategy/>

<sup>44</sup> Ibid

<sup>45</sup> Carbon Brief, “Analysis: UK’s CO<sub>2</sub> emissions have fallen 29% over the past decade”, (2020), at: <https://www.carbonbrief.org/analysis-uks-co2-emissions-have-fallen-29-per-cent-over-the-past-decade>

<sup>46</sup> UK Climate Change Committee, “UK Housing: fit for the future?” (2019), at: <https://www.theccc.org.uk/publication/uk-housing-fit-for-the-future/>

<sup>47</sup> Government of UK, Department for Business, Energy and Industrial Strategy, “Clean Growth Strategy: executive summary”, , <https://www.gov.uk/government/publications/clean-growth-strategy/clean-growth-strategy-executive-summary>

<sup>48</sup> UK Ministry of Housing, Communities and Local Government, “Energy Performance of Buildings Certificates Statistical Release: April to June 2023 England and Wales”, at: <https://www.gov.uk/government/statistics/energy-performance-of-building-certificates-in-england-and-wales-april-to-june-2023/energy-performance-of-buildings-certificates-statistical-release-april-to-june-2023-england-and-wales>

<sup>49</sup> Government of UK, Department for Energy Security and Net Zero and Department for Business, Energy and Industrial Strategy, “Net Zero Strategy: Build Back Greener”, (2021) at: <https://assets.publishing.service.gov.uk/media/6194dfa4d3bf7f0555071b1b/net-zero-strategy-beis.pdf>

<sup>50</sup> Ibid.

<sup>51</sup> UK Parliament, House of Commons Library, “The Climate Change Act 2008 (2050 Target Amendment) Order 2019”, at: <https://www.legislation.gov.uk/uksi/2019/1056/made>

		with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Terrestrial and Aquatic Biodiversity	15 Life on land	15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species
Affordable Housing	11 Sustainable cities and communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Access to Essential Services	10 Reduced inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

## Conclusion

Sovereign Network Group has developed the Sovereign Sustainable Finance Framework under which it intends to facilitate the issuance of green, social and sustainability bonds, loans, private debt placements and revolving credit facilities, and use the proceeds to finance and refinance, in whole or in part, existing and future projects related to affordable housing, green building, energy efficiency, renewable energy, and clean transportation that are expected to have a positive impact on the environment and social well-being of the communities in which Sovereign operates.

The Sovereign Sustainable Finance Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for Sovereign to report on allocation and impact. Sustainalytics considers that the Sovereign Sustainable Finance Framework is aligned with the overall sustainability strategy of the Issuer, and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7, 8, 9, 10, 11 and 15. Additionally, Sustainalytics is of the opinion that Sovereign 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 Sovereign Housing Association is well positioned to facilitate the issuance of green, social and sustainability bonds, loans, private debt placements and revolving credit facilities, and that the Sovereign Sustainable Finance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2023), Sustainability Bond Guidelines (2021), Green Loan Principles (2023) and Social Loan Principles (2023).

## Appendix

### Appendix 1: Green, Social and Sustainability Bonds - External Review Form

#### Section 1. Basic Information

Issuer name:	Sovereign Network Group
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	Sovereign Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	November 22, 2023
Publication date of review publication:	July 11, 2022
Original publication date <i>[please fill this out for updates]:</i>	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
  - Use of Proceeds
  - Management of Proceeds
  - Process for Project Evaluation and Selection
  - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

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

- Second Party Opinion
- Verification
- Other (please specify):
- Certification
- Scoring/Rating

##### Does the review include a sustainability quality score?

- Of the issuer
- Of the Framework
- Of the project
- Other (please specify):

No scoring

#### ASSESSMENT OF THE PROJECT(S)

**Does the review include:**

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

#### ISSUER'S OVERARCHING OBJECTIVES

**Does the review include:**

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

#### CLIMATE TRANSITION STRATEGY

**Does the review assess:**

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

**Overall comment on this section:**

### Section 3. Detailed Review

#### 1. USE OF PROCEEDS

**Does the review assess:**

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

**Does the review assess if the issuer provides clear information on:**

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

**Overall comment on this section:**

The eligible categories for the use of proceeds, Green Buildings, Energy Efficiency, Renewable Energy, Clean Transportation, Terrestrial and Aquatic Biodiversity, Affordable Housing and Access to Essential Services are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 8, 9, 10, 11 and 15.

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

**Does the review assess:**

whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones. Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.

whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?

the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?

the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?

any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

**Overall comment on this section:**

Sovereign's internal process for evaluating and selecting projects is overseen by its Group Investment and Major Project committees, which comprise executive team and board members. These committees also oversee Sovereign's environmental and social risk management processes for all development-related project allocations under the Framework, while others are reviewed by the ESG Team. Sovereign's ESG Team oversees the implementation and management of the Framework. Sustainalytics considers the project selection process in line with market expectation.

## 3. MANAGEMENT OF PROCEEDS

**Does the review assess:**

the issuer's policy for segregating or tracking the proceeds in an appropriate manner?

the intended types of temporary investment instruments for unallocated proceeds?

Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

**Overall comment on this section:**

Sovereign's Sustainable Finance Asset Register will be used to track all projects, investments and expenditures into eligible projects, as approved by the committees and the ESG Team. Unallocated gross proceeds will be managed in accordance with Sovereign's treasury management policy.

## 4. REPORTING

**Does the review assess:**

the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?

the frequency and the means of disclosure?



- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

**Overall comment on this section:**

Sovereign intends to report annually on the allocation of proceeds under the Framework until full allocation. The report will detail total proceeds allocated to each eligible project category, a breakdown of proceeds allocated to new and existing projects, the share of financing versus refinancing, and the balance of unallocated proceeds. In addition, the Issuer intends to report on relevant impact metrics.

## Section 4. Additional Information

**Useful links** (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

**Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:**

**Additional assessment in relation to the issuer/bond framework/eligible project(s):**

### ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP and SBP

- i. Second-Party Opinion: An institution with environmental and social 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 or Social 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 and Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social 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 and social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally and socially 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 and Social Bond proceeds, statement of environmental and social impact or alignment of reporting with the GBP and SBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond/ Social Bond or associated Green Bond/ Social Bond framework or Use of Proceeds certified against a recognised external green or social 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 and Social Bond Scoring/Rating: An issuer can have its Green/ Social Bond, associated Green/ Social 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 social performance data, process relative to the GBP, SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental and social risks.

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## About Sustainalytics, a Morningstar Company

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