

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 2021, Green Loan Principles 2021, and Social Loan Principles 2021. 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 are expected to 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 / SELECTION 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.



MANAGEMENT OF PROCEEDS 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. Unallocated gross proceeds will be managed in accordance with Sovereign's treasury management policy. This is aligned with market expectation.



REPORTING 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. Both the allocation and impact reports are expected to be published annually within Sovereign's ESG Report to its website. Sustainalytics views Sovereign's allocation and impact reporting as aligned with market expectation.

Evaluation Date	July 11, 2022
Issuer Location	Basingstoke, UK

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Introduction

Sovereign Housing Association is a not-for-profit housing association which together with its subsidiary Sovereign Housing Capital (“Sovereign” or the “Issuer”) provide social housing across south and south-west England. Headquartered in Basingstoke, UK, Sovereign owns and manages approximately 60,000 residential units.

Sovereign has developed the Sovereign Sustainable Finance Framework (the “Framework”) under which it intends to facilitate the issuance of 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 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 Sovereign Sustainable Finance Framework, dated June 2022, 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 2021 (SBP)¹, Green Loan Principles 2021 (GLP) and Social Loan Principles 2021 (SLP)². The Framework has been published in a separate document.³

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with 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 2021, as administered by ICMA, and the Green Loan Principles 2021 and Social Loan Principles 2021, 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 1.11, 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 or up to date; (2) that they have provided Sustainalytics with

¹ 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/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>.

² The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>.

³ The Sovereign Sustainable Finance Framework is available on Sovereign Housing Association’s website at: <https://www.sovereign.org.uk/investors>

⁴ 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. Upon twenty-four (24) months following the evaluation date set stated herein, Sovereign is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised 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.
 - 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.⁵
 - 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.
 - Within the Energy Efficiency category, the Issuer intends to finance the retrofit of existing buildings to result in at least a two-level increase in its EPC to achieve a minimum C, or a one level increase to achieve A or B. Sovereign may also finance investments related to the purchase and installation of technologies that aim to reduce energy consumption of properties, such as smart meters and smart thermostats, energy efficient household appliances, LED lighting, as well as demand energy performance use monitoring and battery storage systems, including as part of whole house retrofit pilot projects.
 - Sovereign has indicated that no technologies financed under this category will be fossil fuel powered.

⁵ 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. For more information: <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>

- Sustainalytics notes that each of the building performance improvement thresholds outlined in the Framework for this category represent an energy efficiency improvement of at least 30%.
- Whole house retrofit pilot projects means those improving on heating, renewable energy generation and storage and digital controls that inform energy efficiency.
- Financed household appliances will fall into the highest two populated classes of energy efficiency in accordance with EU Regulation 2017/1369. Sustainalytics notes that Sovereign's reliance on EU energy labels to define eligibility in this category is consistent with the EU Taxonomy Climate Delegated Act.
- Under the Renewable Energy category, Sovereign may invest in renewable energy generation projects related to solar photovoltaic power, hot water panels and wind energy generation, each operating at a life cycle emissions intensity below 100 gCO₂/kWh.
- Under the Clean Transportation category, the Issuer considers financing the installation of technology and infrastructure to facilitate access to zero emissions or public transportation, including electric vehicle charging points, cycling racks and cycle paths on Sovereign developments, as well as the leasing or purchase of electric vehicles and hybrid vehicles for Sovereign's fleet that meet an emissions intensity threshold lower than 50 gCO₂/km until 31 December 2025, and zero emissions beginning 1 January 2026.
 - Sustainalytics considers the expenditures under this category and the applicable thresholds specified in the Framework as aligned with market expectation.
- 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 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 3.0,⁶ 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 2023.⁷
- 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.⁸ 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 60,000. In Sustainalytics' opinion, it is good practice for affordable housing programmes to target lower-income segments of the population, or at least those earning below the median income. The Framework's income cap of GBP 60,000 is well above the median household income in the UK, which was GBP 31,400 in FY202.⁹ Although Sovereign has an income cap lower than that of the government scheme, and although the average income among Sovereign shared ownership customers was GBP 27,179 in 2021, the Issuer's potential financing of households whose income levels can reach up to GBP 60,000 is nonetheless a deviation from what Sustainalytics considers to be good practice for affordable housing programmes.
 - 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

⁶ Natural England, "The Biodiversity Metric 3.1 (JP039)", at: <http://publications.naturalengland.org.uk/publication/6049804846366720>

⁷ UK Public General Acts, "Environmental Act – 2021", at: <https://www.legislation.gov.uk/ukpga/2021/30/enacted>

⁸ UK Government, "Shared Ownership", at: <https://www.ownyourhome.gov.uk/scheme/shared-ownership/>

⁹ UK Government, Office for National Statistics, "Average household income, UK: financial year 2021", at:

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2021>

- local and regional market rent levels and incorporating various adjustments applied per the Ministry of Housing Communities & Local Government. Sustainalytics notes that social and affordable housing is characterized by rents of up to a maximum of 80% of the area market rental rate, with social housing having rents generally limited to 60% of market rental rates¹⁰. These housing programs are considered to be aligned with market practice.
- 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 and be aligned with best practice.
 - 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 skill trainings and development programs to the target population. Sustainalytics considers enhancing access to public and free education as socially impactful and aligned with best practice.
 - Support services provided by external agency health and well-being professionals.
 - Sustainalytics considers the financing of these activities as expected to provide social benefits and to be aligned with best practice.
 - 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 COO and the Executive Director of Development and Commercial. This committee has been delegated its authority by the board of directors. For larger and complex projects, the evaluation, selection and monitoring processes are carried out by Sovereign's Major Project Committee (MPC), which is comprised of two non-executive directors who are also board members, and up to 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, who ensures alignment of all projects with the Issuer's corporate plan and its key standards.
 - Project selection carried out by the committees involves the review of any reported environmental and social risks associated with investments to ensure all projects are appropriately managed and mitigated, and progress in compliance with relevant laws, standards and regulations. Sustainalytics considers these environmental and social risk management systems to be adequate.
 - 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 expectation.
 - Management of Proceeds:
 - The gross 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 system 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. It will also be ensured by the relevant oversight bodies that the amounts allocated to financed projects is, subject to initially achieving full allocation, at all times equal to or in excess of the gross proceeds outstanding from the Framework's issuances while the relevant instrument remains outstanding.

¹⁰ UK Parliament – House of Commons Library, “What is affordable housing?”, at: <https://commonslibrary.parliament.uk/research-briefings/cbp-7747/>

- Unallocated gross 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 in the fossil fuel, nuclear weapons, defence, alcohol, tobacco or gambling industries.
- 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 expectation.
- Reporting:
 - Sovereign will report annually on the allocation of proceeds from any sustainable finance instruments issued under the Framework until all proceeds have been fully allocated, and when material reallocations of proceeds have taken place during the life 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 in the Issuer’s ESG report, which is published annually on its 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: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Sovereign

Contribution of Framework to Sovereign Housing Association ’s sustainability strategy

Sustainalytics is of the opinion that Sovereign demonstrates a commitment to sustainability through its sustainability strategy that is based on three connected pillars: (i) societal impacts; (ii) natural environment impacts; and (iii) impacts on the housing system.¹¹ Sovereign is also aligned with The Good Economy’s Sustainability Reporting Standard (SRS) for social housing, which aims to align with the relevant social housing principles of the SDGs and those of the International Capital Market Association (ICMA), Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI) and the Task-Force on Climate Related Financial Disclosures (TCFD).¹² Sovereign reports on ESG issues following SRS’s proposed set of 12 themes that are divided into 48 criteria.

- In line with its first sustainability strategy pillar, 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 educational programme. Moreover, the Issuer provides community support, financial and digital support and training, and work-related advice and training to help in maintaining jobs during the COVID-19 pandemic. The Issuer is involved in increasing employment by being part of the UK government’s Kickstart Scheme, by being in the partnership programme Skills 4 Work, and by offering resident grants for training, work, business start-ups and childcare while working.¹³ In FY 2020/21, Sovereign

¹¹ Sovereign Housing Association, “ESG Report 2021”, at: <https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/c41c6bfb-90ff-4524-87bd-73b6fdc4f960/ESG%20Report%202021.pdf>

¹² 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

¹³ Sovereign Housing Association has provided Sustainalytics with the document: “Thriving Communities – Creating opportunities for all”

reported investments of GBP 4.72 million, generating a corresponding social value of over GBP 24 million.^{14,15}

- In terms of impact on the natural environment, Sovereign has committed to implementing biodiversity management practices, including scoring the net biodiversity gains of each development, and the setting of a minimum threshold for brownfield developments of 25% of new projects, and 35% when estate regeneration and mixed-use urban regeneration projects are taken into consideration. Further, the Issuer has committed to the continued procurement of 100% of its operational energy from renewable sources. By 2026, Sovereign has also committed to developing a pathway to net zero carbon emissions for existing homes, including 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.^{16,17,18}
- To approach the last strategic pillar, Sovereign plans on growing its output of affordable homes by building 2,400 homes per year, starting on FY 2026/27. In FY 2020/21 the Issuer completed the construction of 1,051 new homes, of which 45% represent shared ownership, 41% affordable rent and 14% social rent.¹⁹ 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.^{20,21}

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 the occupational health and safety risks, Sovereign has in place its Health and Safety Policy, which aims to protect employees, residents and contractors in its operations. To assure the policy's implementation, the Issuer has put in place a management system containing procedures and guidance in line with the Safety Services Strategy 2019-2024.²²
- Sovereign addresses stakeholder rights and community engagement through its Resident and Board Partnership (RBP), which allows customers to participate in the development of Sovereign's strategy, policies and service standards. Moreover, Sovereign has adopted the National Housing Federation

¹⁴ Sovereign Housing Association, "ESG Report 2021", at: <https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/c41c6bfb-90ff-4524-87bd-73b6fdc4f960/ESG%20Report%202021.pdf>

¹⁵ 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>

¹⁶ SAP is the methodology used to assess a dwelling's environmental performance. The SAP underpins EPC, as the SAP scores form the EPCs.

¹⁷ Sovereign Housing Association, "ESG Report 2021", at: <https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/c41c6bfb-90ff-4524-87bd-73b6fdc4f960/ESG%20Report%202021.pdf>

¹⁸ 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>

¹⁹ 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>

²⁰ 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>

²¹ Sovereign Housing Association, "ESG Report 2021", at: <https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/c41c6bfb-90ff-4524-87bd-73b6fdc4f960/ESG%20Report%202021.pdf>

²² Sovereign Housing Association provided the "Health & Safety Policy" (2021) to Sustainalytics.

Together with Tenants initiative, focused on strengthening the relationship between residents and housing associations.^{23,24}

- 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.²⁵

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 GBP, SBP, GLP and SLP. Sustainalytics has focused on two below where the impact is specifically relevant to the local context.

Increasing affordable units supply in the UK

Although the UK has the highest share of social housing in the OECD,²⁶ it is experiencing a significant housing shortage overall. An estimated 8.4 million people in England live in unaffordable, insecure, overcrowded or otherwise unsuitable homes.²⁷ The lack of affordable housing further leads to negative social outcomes as families and individuals are compelled to make trade-offs between spending on rent and other essentials, such as food, healthcare and transportation.²⁸ With more than 1.1 million people on the waiting list for affordable (including social and intermediate) housing,² the UK government has set a goal of building 300,000 houses annually,²⁹ dedicating part of this goal to affordable housing. Specifically, the Affordable Homes Programme³⁰ aims to provide 180,000 new shared-ownership and discounted-rent properties by 2026.

On the energy efficiency of buildings and homes, among other goals, the UK Fuel Poverty Strategy aims to achieve a minimum energy performance certificate C label for the entire British building stock by 2030.³¹ The social housing sector, which accounts for approximately 15% of all homes in the UK,^{32,33} presents a significant opportunity for providing affordable homes and significantly reducing CO₂ 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.³⁴

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

²³ Sovereign Housing Association, "ESG Report 2021", at: <https://assets-eu-01.kc-usercontent.com/c783d326-05c6-0106-90ef-624f23b543bd/c41c6bfb-90ff-4524-87bd-73b6fdc4f960/ESG%20Report%202021.pdf>

²⁴ National Housing Federation, "Together with Tenants", at: <https://www.housing.org.uk/our-work/together-with-tenants/>

²⁵ Equator Principles, "EP4", (2020), at: https://equator-principles.com/app/uploads/The-Equator-Principles_EP4_July2020.pdf

²⁶ OECD, "Affordable Housing Database", at: <http://www.oecd.org/housing/data/affordable-housing-database/>

²⁷ UK Ministry of Housing, Communities & Local Government, "Local authority housing statistics: Year ending March 2018, England", at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/773079/Local_Authority_Housing_Statistics_England_year_ending_March_2018.pdf

²⁸ Krafft, C. (2019) "5. The Economics of Poverty", at: <https://mlpp.pressbooks.pub/economicsforthegreatergood/chapter/the-economics-of-poverty/>

²⁹ UK 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

³⁰ UK 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>

³¹ UK Ministry of Housing, Communities and Local Government, "Fuel poverty strategy for England", (2019), at:

<https://www.gov.uk/government/consultations/fuel-poverty-strategy-for-england#:~:text=Consultation%20description&text=In%202014%2C%20the%20government%20introduced,fuel%20poverty%20strategy%20for%20England>

³² Climate Change Committee, <https://www.thecc.org.uk/2022/03/09/taking-stock-of-the-uk-governments-heat-and-buildings-strategy/>

³³ UK 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>

³⁴ Sustainable Homes, "Housing 2050", (2020), at:

<https://static1.squarespace.com/static/5c867873e8ba44ac1303d5fc/t/5dd3a2a2b036cc38a0271e77/1574150823796/Housing+2050+-+web+version.pdf>

Achieving net zero emissions buildings in the UK

GHG emissions from buildings account for 34% of the UK’s total emissions,³⁵ which is slightly lower than the European average of 36%.³⁶ As of 2020, the UK was the source of approximately 1.1% of global GHG emissions,³⁷ of which 17% were attributed to residential buildings.³⁸ 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.³⁹ 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.⁴⁰

Despite having reduced GHG emissions by 29% between 2010 and 2019,⁴¹ the UK must accelerate the decarbonization of the housing sector in order to meet its 2050 target.⁴² In 2018, the UK government launched the Clean Growth Strategy,⁴³ which includes a goal to have 100% of UK homes achieve an EPC C or above by 2030. As of June 2019, 95% of new domestic properties and 38% of existing properties in England and Wales had an EPC C or above.⁴⁴ In 2020, the UK government proposed the Build Back Greener strategy,⁴⁵ announcing a series of priorities that include a GBP 1 billion (EUR 1.15 billion) spending package to improve the energy efficiency of buildings.⁴⁶ These measures form part of the UK strategy to achieve its net zero GHG emissions 2050 target.⁴⁷

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.

Alignment with/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 the year 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

³⁵ UK Climate Change Committee, “Factsheet: Buildings”, at: <https://www.theccc.org.uk/wp-content/uploads/2014/08/Fact-sheet-buildings-updatedJuly-2015.pdf>

³⁶ EURIMA, “A Climate Neutral Building Stock” (2019), at: https://www.eurima.org/uploads/files/modules/articles/1577095033_Climate-Neutral-Building-Stock_position%20paper_11%202019.pdf

³⁷ UK Parliament, “UK and global emissions and temperature trends”, (2020), at: <https://commonslibrary.parliament.uk/uk-and-global-emissions-and-temperature-trends/#:~:text=ln%202020%2C%20global%20average%20temperatures,economic%20downturns%20and%20oil%20shocks>.

³⁸ UK Department for Business, Energy & Industrial Strategy, “2019 UK greenhouse gas emissions, provisional figures”, (2020), at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/875485/2019_UK_greenhouse_gas_emissions_provisional_figures_statistical_release.pdf

³⁹ 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/>

⁴⁰ Ibid

⁴¹ Carbon Brief, “Analysis: UK’s CO₂ 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>

⁴² UK Climate Change Committee, “UK Housing: fit for the future?” (2019), at: <https://www.theccc.org.uk/publication/uk-housing-fit-for-the-future/>

⁴³ 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>

⁴⁴ UK Ministry of Housing, Communities and Local Government, “Energy Performance of Buildings Certificates Statistical Release - Q2 2019”, at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/821898/EPB_Cert_Statistics_Release_Q2_2019.pdf

⁴⁵ UK Department for Business, Energy and Industrial Strategy, “New plans to make UK world leader in green energy”, (2020) at: <https://www.gov.uk/government/news/new-plans-to-make-uk-world-leader-in-green-energy>

⁴⁶ UK Department for Business, Energy and Industrial Strategy, “Greener homes, jobs and cheaper bills on the way as government launches biggest upgrade of nation’s building in a generation”, (2020), at: <https://www.gov.uk/government/news/greener-homes-jobs-and-cheaper-bills-on-the-way-as-government-launches-biggest-upgrade-of-nations-buildings-in-a-generation>

⁴⁷ UK Department for Business, Energy and Industrial Strategy, “UK becomes first major economy to pass net zero emissions law” (2019), at: <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>

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, 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
	8 Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

Conclusion

Sovereign Housing Association has developed the Sovereign Sustainable Finance Framework under which it intends to facilitate the issuance of 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 affordable housing, green building, energy efficiency, renewable energy, and clean transportation projects that are expected to have a positive impact on the environment and social wellbeing of the communities in which they operate.

The Sovereign Sustainable Finance Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for Sovereign to report on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes 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 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 (2021), Green Loan Principles (2021) and Social Loan Principles (2021).

Appendix

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Sovereign Housing Association
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Sovereign Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	July 11, 2022
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

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 SDG 7, 8, 9, 10, 11, and 15.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Sovereign Housing Association 's internal process in evaluating and selecting projects is overseen by its Group Investment and Major Project committees, who are comprised of 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 of and management of the Framework. Sustainalytics considers the project selection process in line with market expectation.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

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. Unallocated gross proceeds will be managed in accordance with Sovereign's Treasury Management Policy. This is aligned with market expectation.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
|---|---|

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

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. Both the allocation and impact reports are expected to be published annually within Sovereign's ESG Report to its website. Sustainalytics views Sovereign's allocation and impact reporting as aligned with market expectation.

Use of proceeds reporting:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|--|---|
| <input type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|---|
| <input type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input type="checkbox"/> Number of beneficiaries |
| <input checked="" type="checkbox"/> Target populations | <input checked="" type="checkbox"/> Other ESG indicators (please specify): Number of new built of refinanced homes; Number of properties which have achieved improvements to their EPC rating; Installed renewable energy capacity; % |

of low or zero emission vehicles in fleet; Actual average rent charged vs, private local market rent; Number of buildings and/or floor space provided for community purposes

Frequency:

- Annual Semi-annual
 Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify):
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
 Verification / Audit Rating
 Other (please specify):

Review provider(s):

Date of publication:

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

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability 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 Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and 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 sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or 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 Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
 - iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability 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, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability 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 environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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