

CROSS KEYS HOMES LIMITED

ESG BOND FRAMEWORK

August, 2014

Highlights:

Environmental

- Refinancing of green projects on existing homes including renewable energy, energy efficiency, water and waste management improvements
- The building of new homes with HCA code level 3 or equivalent

Social

- Positive community and economic impacts through the provision of social housing
- Delivery of community programs aimed at reducing unemployment by providing employment skills, with a focus on youth employment
- Commitment to social supply chain standards and community involvement

Governance

- Robust and transparent reporting on environmental and social impacts
- Direct reporting by the environmental committee to the Management Board



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1. PREFACE

Sustainalytics has been hired to support Cross Keys Homes in the creation of a framework that Cross Keys Homes can use to issue an ESG Bond. The ESG Bond structure is consistent with the Green Bond Principles, the voluntary Process Guidelines for issuing Green Bonds established in June 2014. As part of this engagement, Sustainalytics met with Cross Keys Homes' Commercial Services, Development, Asset Management and Communication teams to understand Cross Keys Homes' current environmental strategy and projects, planned use of proceeds and subsequently reviewed relevant internal documents to develop a framework within an ESG bond strategy. In the following pages, an outline of Sustainalytics' framework and assessment is provided.

2 INTRODUCTION

For ten years, Cross Keys Homes, a not-for-profit charitable housing association, has been working to improve local communities and neighbourhoods in Peterborough, UK through affordable housing, community initiatives, and support services. Cross Keys Homes now manages approximately 14 percent of the city's households and provides a range of other services including debt and welfare advice, employment skills and training programmes.

Cross Keys Homes is working towards the issuance of a £100 million ESG bond underpinned by the organisation's environmental and social commitments, including the Green Scene One Planet Framework and Communities Strategy. The ESG bond proceeds will be used 1) to refinance improvement projects that resulted in environmental, social and economic benefits, 2) to finance new energy efficient, socially beneficial homes, and 3) to lesser extent, support projects providing environmental and social benefits across the existing asset stock and the community base. The bond is geared towards the mainstream institutional investor market and particularly to investors with ESG focus. Cross Keys Homes expects to fully allocate the funds within 3 years of issuance of the bond.

3 CROSS KEYS HOMES' ENVIRONMENTAL AND SOCIAL STRATEGY

Cross Keys Homes' wider environmental and social strategy references the Green Scene One Planet Framework and the Communities Strategy which together outline key environmental and social commitments for Cross Keys Homes.

3.1 Environmental Strategy

The Green Scene One Planet Framework outlines wider corporate commitments to environmental responsibilities in areas such as reduced consumption and waste in day to day operations, to enhance tenant environmental impact and reduce fuel poverty. It also describes Cross Keys Homes' aspirations in reducing the company's environmental impacts across its offices, assets, internal transportation, and procurement. The Green Scene One Planet Framework outlines how the organisation measures its impacts, discloses environmental targets, provides the action plan for achieving those targets, and describes how progress will be monitored and reported on.

Since the programme launch in 2004, investments amounting to £48.4 million were made (see Appendix B) which have resulted in significant positive environmental impacts such as increase in SAP rating for existing homes by 24%, reduced its stock emissions by 60%. The company also reduced carbon footprint of its head office from 648.12 tonnes in 2008 to 331 tonnes currently.

The targets under Green Scene One Planet Framework includes the following:

- Install Solar PV to 2,600 properties by 2015.
- Improve SAP ratings of all housing stock to a minimum of 72 - targeting those properties below 72 to achieve 100% by 2015.
- Reduce waste it produces to target of 200kg waste/employee/year.
- Construction sites to use site waste management plan to divert over 85% of waste from landfills.
- Upgrade 50% of fleet to a low carbon alternative by 2017.
- Install a rainwater harvesting system at Cross Keys Homes' offices.

3.2 Social Strategy

Cross Keys Homes' Communities Strategy focuses on the key issues facing its residents including tackling deprivation across all areas through raising skills levels for employment, addressing health inequalities and inspiring young people. The current focus of this strategy is the *Working 4 U initiative*, which focuses on alleviating unemployment through the provision of career training and capacity building sessions and the *Moving 4ward* programme, which specifically targets reducing youth unemployment through training and hands on work experience opportunities.¹

Cross Keys Homes intends to use a part of the bond proceeds toward supporting its Environmental and Social strategy as per the eligibility criteria defined in section 5 in this document.

4 ASSESSMENT OF ENVIRONMENTAL POLICIES AND PROGRAMMES

4.1 Background

Sustainalytics recognises that Cross Keys Homes' social credentials are strong. As a social housing association, its business model focuses primarily on providing positive social and sustainable impact within its tenant community (for detailed information on social programme policies please see Appendix A). Therefore, to best outline performance relative to industry peers, Sustainalytics has focused its assessment entirely on Cross Keys Homes' environmental policies and programmes. Sustainalytics has reviewed relevant internal and external documentation provided by Cross Keys Homes detailing the company's environmental policies and programmes, met with senior executives and key CSR team members, and completed in depth desk based research to assess Cross Keys Homes' environmental policies and programmes. The assessment has been divided into environmental areas that are considered

¹ Cross Keys Homes Community Investment Strategy 2011

to be material for the real estate sector and closely aligned with the desired green impacts of the bond. Based on available evidence, Sustainalytics has furthermore determined that Cross Keys Homes has not been involved in any significant environmental controversies over the last three years.

4.2 Environmental Assessment

Sustainalytics assessed Cross Keys Homes' environmental policies and programmes outlined in the company's Environmental Action Plan 2014 and compared these policies and programmes to its peers in the real estate industry globally. Cross Keys Homes was compared to real estate peers on three indicators recognised by Sustainalytics to be highly significant for the environmental sustainability of the real estate industry ; GHG reduction programmes, green procurement policy, and green buildings investments. Based on this assessment, Sustainalytics considers Cross Keys Homes to be an environmental outperformer in these areas.

4.2.1 GHG Reduction Programmes

Cross Keys Homes has set quantitative targets at a group level and has set a clear deadline for reaching these targets. The company had planned to reduce carbon emissions in its offices by 11 % by 2011, and then by 5% per year onwards, based on a 2008/2009 baseline. In 2012, Cross Keys Homes achieved a reduction of 13.4% in CO2 emissions compared to the previous year. Cross Keys Homes aims to reduce housing stock emissions by improving the Standard Assessment Procedure (SAP) and since 2004 has increased its SAP rating in its homes by 24% and will ensure all its homes achieve a SAP rating of 72 by 2015. Cross Keys Homes' average SAP rating for its homes is currently the highest in the sector peer group for 2012/2013 according to HouseMark, a UK based organisation owned by the Chartered Institute of Housing and the National Housing Federation. Cross Keys Homes is considered by Sustainalytics to have a strong GHG reduction programme, aligned with best practice in the real estate industry. Out of the real estate companies that Sustainalytics tracks globally, Cross Keys Homes performs in the top 20% of its peers on this indicator.

4.2.2 Green Procurement Policy

Cross Keys Homes has a strong and detailed green procurement policy in place. The company states that it maintains a Green Purchasing Procedure, which ensures the green procurement of goods and services that meet the company's environmental standards. Cross Keys Homes aims to use local suppliers to reduce the impact transportation has on the environment. In all cases, Cross Keys Homes asks that suppliers sign up to the Green Purchasing Procedure, and commits to take action against any that the company believes are acting inappropriately. The company also discloses a green procurement target for 2015 in its Environmental Action Plan 2014, which states that ISO 14001 certified businesses will be used where available to encourage a sustainable supply chain. In addition, Cross Keys Homes commits to giving preference to "timber and timber products that have been independently certified by a credible, globally applicable forest certification scheme and can demonstrate that the products are derived from well managed sources." Cross Keys Homes' performance on this indicator places the company within the top 5% of peers in the global real estate industry.

4.2.3 Green Buildings Investments

Cross Keys Homes has a strong and detailed programme to increase investments in sustainable buildings. In the company's Environmental Sustainability Strategy, Cross Keys Homes states that the company is

working towards the sub-regional housing target and aims to build 250 new homes a year to achieve this. Cross Keys Homes commits to building all new homes in an energy efficient manner by complying with the HCA sustainable code level 3 or equivalent for all its homes as a minimum standard and to date has also built 120 units at code level 6, within one of the first ecologically-focused housing developments in England. Cross Keys Homes recently completed a 79 flatted extra care housing scheme which achieved the “Very Good” rating under the Building Research Establishments Environmental Assessment Method (BREEAM) requirements, and intends to complete further similar schemes over the next 3 years as part of its overall growth strategy. Cross Keys Homes also commits to ensuring all of the company’s new homes will meet the UK government’s energy rating of either A or B and all its existing stock will achieve a rating of C by 2015. Cross Keys Homes’ performance on this indicator places the company within the top 15% of peers in the global real estate industry.

4.3 Conclusion

Through this detailed assessment, Sustainalytics has concluded that Cross Key Homes’ environmental policies and programmes demonstrate best practices in the real estate industry and align strongly with the desired environmental objectives of the ESG bond.

5 ELIGIBILITY CRITERIA & ELIGIBLE PROJECTS

5.1 Use of Proceeds

Cross Keys Homes will use the ESG bond proceeds for the following purposes:

- 1) To refinance a portion of bank loans that were used to finance environmental related projects (“Green projects”) on existing homes defined under Eligible Assets. In total, £48.4 million of the ESG Bond proceeds will be used for the refinancing these completed environmental projects.

The remaining £51.6 million of the ESG Bond proceeds will be used:

- 2) Primarily, to finance the building of new homes (“new builds”) that meet the environmental and social standards defined under Eligible Assets
- 3) A relatively small proportion of proceeds may be used to fund capital expenditure on environmental and social projects as per Eligibility Criteria

5.2 Eligibility Criteria

Sustainalytics has identified the following broad themes that result in positive environmental and social impacts. These themes form the eligibility criteria for the allocation of bond proceeds.

- 1) Energy Efficiency: Construction of energy efficient buildings/homes or technologies and products that improve energy efficiency of buildings/homes and/or;
- 2) Renewable Energy: Projects for the development and generation of electricity from renewable energy sources – example solar photovoltaic projects and/or;
- 3) Waste Management: Projects and products that reduce waste and increase recycling and/or;

- 4) Water Management: Technologies and products that reduce, reuse, or recycle water as a means of conservation and/or;
- 5) Community Wellbeing: Programmes and projects that improve the wellbeing of the community such as addressing employment, health, safety and environment.

5.3 Eligible Assets

Bond proceeds can be invested in any projects that are aligned with themes identified under the Eligibility Criteria (5.2). Currently, the following Cross Keys Homes' assets and/or projects have been identified to meet the above Eligibility Criteria.

5.3.1 Completed Green Projects

Projects in renewable energy, energy efficiency, water and waste management that were implemented between 2004 and June 2014 that resulted in positive environmental benefits to Cross Keys Homes and its home owners/tenants. (See Appendix B for details.)

5.3.2 New Builds

New homes built to equivalent HCA code level 3 or equivalent. Cross Keys Homes targets to build 250 such new homes per year

5.3.3 Other Planned Social and Environmental Capex

Future environmental and social capital expenditures as per the eligibility criteria that Cross Keys Homes plans to undertake as part of its Green Scene One Planet Framework and Communities Strategy. These could range from funding community facilities, such as neighbourhood 'hub's, to specific funding of initiatives to enhance an environmentally sustainable lifestyle such as, funding the development of areas or facilities for people to 'grow their own', to social programs that enhance the wellbeing of the communities served by Cross Keys Homes such as employment training programs and programs that supply local neighbourhood centres with internet facilities.

6 MANAGEMENT OF PROCEEDS & REPORTING

In order to ensure transparency and traceability of the use of proceeds, Cross Keys Homes has committed to the management practices and reporting process as described below.

6.1 Management Oversight of Use of Proceeds

Cross Keys Homes has an environmental working group in place called Green Scene which will oversee the use of proceeds and provide assurance to the Board which has ultimate management responsibility for the use of funds. The working group oversees the delivery and monitoring of the environmental sustainability policy, strategy, and action plan. Three senior management members make up the Green Scene Environmental Resources group, of which the Deputy Chief Executive Officer chairs. The

environmental resources committee reports directly to the Management Board, for the approval of Cross Keys Homes' environmental policy, strategy, and action plan updates. Progress on the action plan is monitored and reported bi-monthly to the Green Scene. All targets and programmes are reviewed, to ensure progress towards achieving them is made, and so that modifications or corrective action can be taken when necessary.

With regard to Communities Strategy, the Head of Communities and Neighbourhoods will be the accountable officer for the delivery of the community investment strategy. Delivery of the strategy will be reviewed on an ongoing basis by the executive team and the Community Strategy Group. Progress will be reported half yearly to the management team and annually to the board. The strategy itself will be reviewed bi-annually.

6.2 Use of Proceeds Reporting

6.2.1 Internal Reporting:

Cross Keys Homes will undertake the following internal reporting exercise:

- a) Bi-monthly expenditure commitments in respect of the eligible assets to Green Scene;
- b) Semi-annual community investment commitments in respect of the eligible assets to Community Strategy Group and management team.
- c) Bi-annual expenditure commitments in respect of the eligible assets on an aggregate basis to Cross Keys Homes' board of directors

6.2.2 External Reporting:

- a) Within 3 months of the issuance of the bond, Cross Keys Homes will provide a balance of funds report indicating proceeds used to refinance bank loans and the balance of unallocated funds
- b) On an annual basis, Cross Keys Homes will produce an external report attesting to the use of proceeds on an aggregate basis versus the balance of bond proceeds until bond proceeds are fully allocated

6.3 KPIs and Impact Reporting

Cross Keys Homes will track and report the following KPI's for the ESG bond projects:

- a) Improvement of SAP rating on existing homes: This will be reported semi-annually to the Board in the form of Statutory Accounts Operating Review and Strategic Report, and annually to the bond holders on the company website.
- b) Number of new homes built to HCA code level 3 or equivalent and any outcomes of BREEAM assessments: This will be reported annually to the bond holders on the company website and in the annual report.
- c) Performance against broader commitment KPI's as included in the Green Scene One Planet Framework and covering areas such as energy and emissions performance of Offices: This will be reported annually, to the Bond Holders on the company website and in the annual report.
- d) Summary of key environmental and social engagement and wellbeing projects undertaken with high level impact statements: This will be reported annually to the bond holders on the company website and annual report.

APPENDICES

Appendix A: Social Programmes

The following table provides more detailed information on Cross Keys Homes social programmes policies and procedures.

Social Programme Aspect	Description
Social Supplier Standards	Cross Keys Homes has a social supply chain standard in place, called the One Equality scheme, which states that all partners, consultants and suppliers must meet the highest standards of equality and diversity and commit to eliminating all forms of unlawful discrimination. Cross Keys Homes requires all suppliers of goods and services to sign the terms of the One Equality scheme, or alternatively provide their own equality and diversity scheme and monitoring information on the diversity of their workforce. Within the Cross Keys Homes Standard, a document that outlines the company's standards for suppliers, the company states that its supplier standards also include the assessment of supplier health and safety performance and local employment impacts.
Social Supply Chain Monitoring	Cross Keys Homes has a social supply chain monitoring system in place. The company states that it "works closely with all contractors to ensure a robust Health & Safety management process." As part of this process Cross Keys Homes will "regularly review, consider, and take appropriate action in terms of the monitoring and management of any and all health and safety incidents that may take place."
Community Involvement	The company has a Community Investment Team in place and provides contact information for tenants. Cross Keys Homes states that there are established tenant selection panels and project groups that the company consults with, and are responsible for such things as selecting contractors and monitoring performance. Cross Keys Homes also gives tenants the option of completing satisfaction surveys, and publishes the results of the surveys annually in a tenant newsletter. The newsletter reports on the company's areas of improvement and ongoing improvement efforts. Cross Keys Homes states that the company involves customers in all elements of planned works. This includes the definition of reinvestment priorities, material and component preferences, KPI performance monitoring and review, making recommendations with the power to influence, and appraisals. The Residents' Scrutiny Panel also undertakes full reviews of services and makes recommendations for change. Cross Keys Homes also has community panels made up of residents that determine how community projects are funded.

Appendix B: Environmental projects undertaken and capital allocated (2004-2014)

Capital Allocated

Component	2005	2006	2007	2008	2009	2010	2011	2012	2013	Totals
Heating	£5,672,377	£6,322,058	£5,398,746	£3,438,019	£1,498,339	£217,313	924,139	£1,342,162	£1,181,604	£25,994,756
Windows & Doors	£3,555,368	£3,558,169	£4,334,596	£408,287	£185,544	£0	£120,147	£386,916	£98,540	£12,647,568
External Wall Ins.					£2,358,624	£2,944,139	£1,428,763	£174,385	£2,434	£6,908,345
Timber Clading							£407,092	£430,290	£710,663	£1,548,045
Flat Roofs						£1,695	£140,948	315,907	467,947	£926,497
PV panels								£120,000	£18,000	£138,000
Cavity						£9,900			£42,000	£51,900
Loft Insulation	£102,113	£0	£1,659	£0	£54,159	£12,176	10,801	£1,265	£1,789	£183,961
Totals	£9,329,858	£9,880,227	£9,735,001	£3,846,306	£4,096,666	£3,185,223	£3,031,890	£2,770,924	£2,522,977	£48,399,073

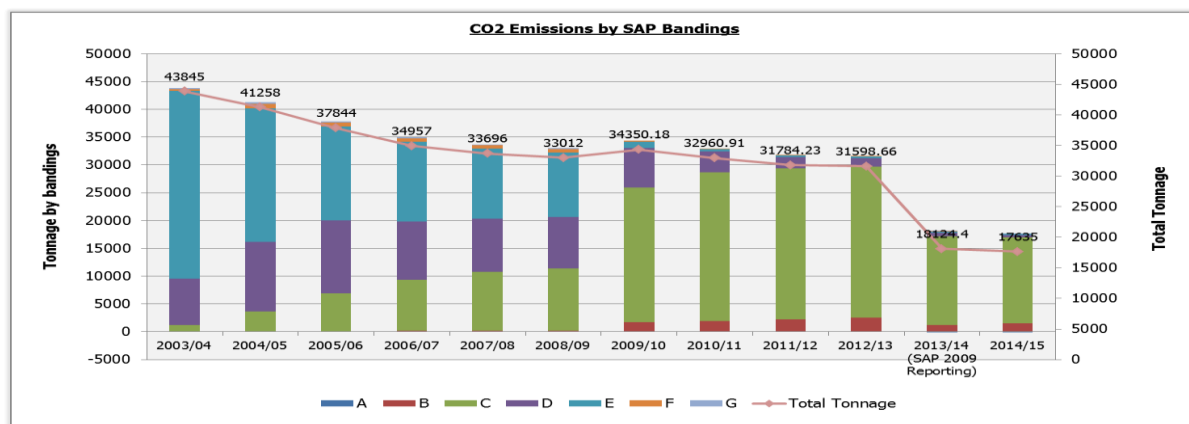
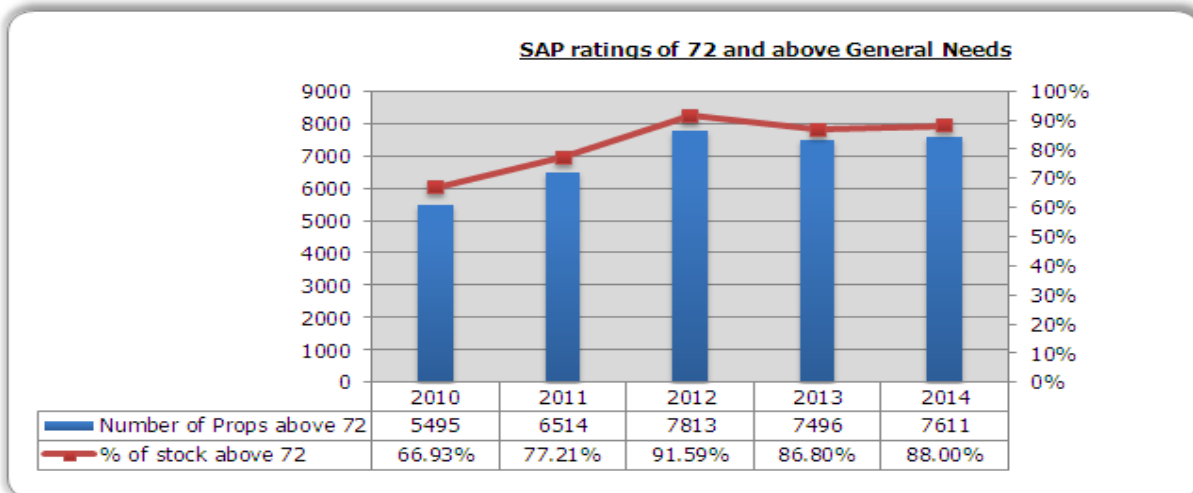
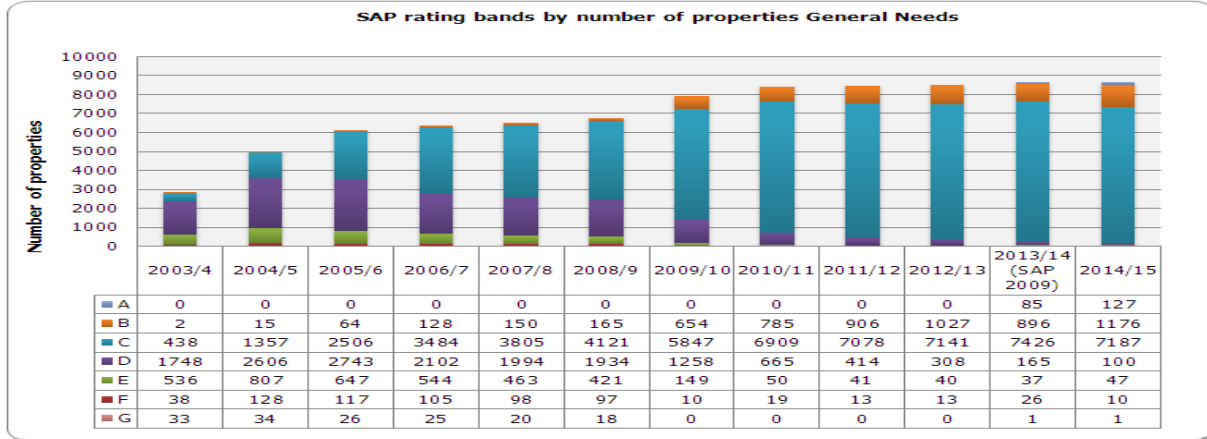
Projects Undertaken

Component	2005	2006	2007	2008	2009	2010	2011	2012	2013	Totals
Heating	1,418	1,581	1,350	860	375	54	231	336	295	6,499
Windows & Doors	867	868	1,057	100	45	0	29	94	24	3,085
External Wall Ins.					306	381	185	23	0	895
Timber Clading							81	86	142	310
Flat Roofs						2	166	372	551	1,090
PV panels								139	1,251	1,390
Cavity	0	0	0	0	0	25	0	0	105	130
Loft Insulation	408	0	7	0	217	49	43	5	7	736
Total Elements	2,694	2,448	2,414	959	942	511	736	1,054	2,376	14,134

Source: Cross Homes Internal Documents

Appendix C: Energy savings and CO2 reduction for projects under Appendix B

Source: Cross Keys Homes Internal Documents



Appendix D: Code for Sustainable Homes, BREEAM Scale, SAP Rating

Code for Sustainable Homes

All new housing funded by the Homes and Communities Agency (HCA) is required to meet the Code for Sustainable Homes (CSH) level 3.

The CSH covers nine categories of sustainable design:²

- Energy and CO2 emissions (M)
- Water (M)
- Materials (M)
- Surface Water Run-off (M)
- Waste (M)
- Pollution
- Health and Wellbeing (M)
- Management
- Ecology

There are mandatory performance requirements in 6 categories (denoted by an M above). All other performance requirements are flexible. It is possible to achieve an overall level of between zero and six depending on the mandatory standards and proportion of flexible standards achieved.

Assessments are carried out in two phases:

An initial assessment is carried out at the design stage. This is based on detailed documentary evidence and commitments which results in an interim certificate of compliance.

Final assessment and certification is carried out at the post construction stage. Based on the design stage review, this includes a confirmation of compliance, including site records and visual inspection, and results in a final certificate of compliance.

BREEAM Scale

BREEAM³ rewards performance above regulation which delivers environmental, comfort or health benefits. BREEAM awards points or 'Credits' and groups the environmental impacts as follows:

- Energy: operational energy and carbon dioxide (CO2)
- Management: management policy, commissioning, site management and procurement
- Health and Wellbeing: indoor and external issues (noise, light, air, quality etc.)
- Transport: transport-related CO2 and location related factors
- Water consumption and efficiency
- Materials: embodied impacts of building materials, including lifecycle impacts like embodied CO2
- Waste: construction resource efficiency and operational waste management and minimisation
- Pollution: external air and water pollution
- Land Use: type of site and building footprint
- Ecology: ecological value, conservation and enhancement of the site

² <http://www.breeam.org/page.jsp?id=86>

³ http://www.breeam.org/filelibrary/BREEAM_Brochure.pdf

The total number of points or credits gained in each section is multiplied by an environmental weighting factor which takes into account the relative importance of each section. Section scores are then added together to produce a single overall score. Once the overall score for the building is known this is translated into a rating on a scale of:

- Pass
- Good
- Very Good
- Excellent
- Outstanding

A star rating from 1 to 5 stars is also provided

SAP Rating

The Standard Assessment Procedure (SAP) is the methodology used by the UK Government to assess and compare the energy and environmental performance of dwellings. Its purpose is to provide accurate and reliable assessments of dwelling energy performances that are needed to underpin energy and environmental policy initiatives.

SAP works by assessing how much energy a dwelling will consume, when delivering a defined level of comfort and service provision. The assessment is based on standardised assumptions for occupancy and behaviour. This enables a like-for-like comparison of dwelling performance. Related factors, such as fuel costs and emissions of carbon dioxide (CO₂), can be determined from the assessment.⁴

SAP quantifies a dwelling's performance in terms of:⁵

- Fabric Energy Efficiency (FEE)
- Energy consumption per unit floor area
- Energy cost rating (the SAP rating)
- Environmental Impact rating based on CO₂ emissions (the EI rating) and Dwelling CO₂ Emissions Rate (DER)

The SAP rating is based on the energy costs associated with space heating, water heating, ventilation and lighting, less cost savings from energy generation technologies. It is adjusted for floor area so that it is essentially independent of dwelling size for a given built form.

The SAP rating is expressed on a scale of 1 to 100, the higher the number the lower the running costs.

⁴ <https://www.gov.uk/standard-assessment-procedure>

⁵ [o.uk/filelibrary/SAP/2012/SAP-2012_9-92.pdf](https://www.gov.uk/filelibrary/SAP/2012/SAP-2012_9-92.pdf)