

Second-Party Opinion

Flagship Group Sustainable Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the Flagship Group 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 – Affordable Housing, Access to Essential Services, Socioeconomic Advancement and Empowerment, Green Buildings, and Renewable Energy – 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 Goals 1, 4, 7 and 11.



PROJECT EVALUATION / SELECTION Flagship Group's ("Flagship") Board of Directors will be responsible for overseeing the process for the evaluation and selection of eligible projects under the Framework. As part of this process, the Board will approve the addition of eligible projects/expenditures and will be responsible for confirming continued compliance with the Framework. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Net proceeds will be managed by Flagship's Finance department. The Company intends to fully allocate and/or disburse proceeds within 24 months of issuance of financing transactions. Pending full allocation, the proceeds will temporarily be invested according to the Company's normal liquidity processes. This is in line with market practice.



REPORTING Flagship Group intends to report on allocation of proceeds on its website on an annual basis until full allocation. In addition, Flagship Group is committed to reporting on relevant quantitative and qualitative impact metrics, which align with the Sustainability Reporting Standards for Social Housing (SRS). Sustainalytics views Flagship Group's allocation and impact reporting as aligned with market practice.

Evaluation Date	July 1, 2021
Issuer Location	Norwich, England

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Introduction

Flagship Group (“Flagship” or the “Company”) is an affordable housing provider headquartered in Norwich, England. Flagship owns and manages approximately 31,883 homes for people in need across the East of England and employs 1,373 individuals.

Flagship has developed the Flagship Group Sustainable Finance Framework (the “Framework”) under which it intends to issue private placements, bonds and/or loans (collectively referred to as “sustainability debt instruments”) and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that support access to affordable and sustainable housing in England.

The Framework defines eligibility criteria in three social areas:

1. Affordable Housing
2. Access to Essential Services
3. Socioeconomic Advancement and Empowerment

The Framework defines eligibility criteria in two green areas:

1. Green Buildings
2. Renewable Energy

Flagship engaged Sustainalytics to review the Framework, dated June 2021, 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. This 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 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 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 1.9, 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 Flagship’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. Flagship representatives have confirmed (1) they understand it is the sole responsibility of Flagship to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with 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.

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 & 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 Flagship Group Sustainable Finance Framework is available on Flagship Group’s website at: <https://www.flagship-group.co.uk/about-us/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.

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 Flagship.

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 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 Flagship has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Flagship Group Sustainable Finance Framework

Sustainalytics is of the opinion that the Flagship Group 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 Flagship's Sustainable Finance Framework:

- Use of Proceeds:
 - The eligible categories – Affordable Housing, Access to Essential Services, Socioeconomic Advancement and Empowerment, Green Buildings and Renewable Energy – are aligned with those recognized by the GBP, SBP, GLP, and SLP.
 - Within the Affordable Housing category, Flagship intends to finance or refinance projects relating to the construction of new and existing social and affordable homes in the United Kingdom. This category may also include investments in projects that aim to prevent homelessness through donations made to Flagship's charitable initiative, Hopestead.⁵ Sustainalytics notes the following regarding the Framework's eligibility criteria:
 - The Company has defined the target population as people in need of housing who are listed on the housing register for affordable/social homes (the "Register") in the respective jurisdictions in which Flagship operates. Flagship has confirmed that in order to qualify for the Register, applicants must be classified as 'low-income' per the UK Government's definition.⁶ Additional criteria may apply and vary across local authorities, but the primary aim of the programme is to reduce homelessness and alleviate poverty by providing safe and sustainable affordable housing. Furthermore, Flagship has confirmed that it adopts rent caps and affordability thresholds for affordable housing set by the UK government and its relevant regulatory bodies.⁷

⁵ Flagship launched Flagship in 2020 with the goal of complementing its efforts to end homelessness in the East of England. The charity's three main objectives are: (i) the prevention and resolution of homelessness; (ii) the creation of sustainable communities; and (iii) building empowering partnerships to achieve our vision.

⁶ The threshold for low income in UK is 60% of median income. More information can be found here: <https://www.gov.uk/government/publications/how-low-income-is-measured/text-only-how-low-income-is-measured>

⁷ Flagship Group shared with Sustainalytics its regulators documents detailing how social housing rents are calculated and capped. As part of this process, Sustainalytics reviewed the Regulator of Social Housing's 'Rent Standard (April 2020)' policy and the Ministry of Housing, Communities & Local Government's 'Policy statement on rents for social housing (February 2019)'.

- In addition to the direct provision of affordable homes, Flagship also intends to finance homes through a “Shared Ownership” program.⁸ This program is made available to people for whom open market purchases are unattainable and where purchasers buy a share of the property and pay rent to Flagship on the remaining value. Eligibility for Shared Ownership is determined by established UK government criteria.⁹
 - The program is part of a government affordable home ownership scheme, under which shared ownership housing may include households with annual income up to GBP 80,000 (GBP 90,000 in London). Sustainalytics notes that market expectation for affordable housing is to target lower-income population segments and that the scheme’s eligibility threshold is above the average household income in the UK, which was GBP 60,194 in 2019/2020.¹⁰ Flagship has reported to Sustainalytics that the average household income of the shared owners who have purchased property through the Company since the start of 2020 has been GBP 34,355. However, the Company does not set an additional income cap beyond the one in the government scheme. While recognizing the expected benefits for many first-time home buyers, Sustainalytics considers financing through the shared ownership program without imposing additional income caps to be a deviation from market practice.
- Regarding Flagship’s donations to Hopestead, Sustainalytics notes that purely philanthropic activities are generally not aligned with market practice. However, this is an exceptional case, as it is recognized that expenditures under the Framework will support a charity owned by Flagship whose main purpose is directly related to the Company’s core business of providing affordable housing and reducing homelessness, and therefore Sustainalytics views this category to be aligned with market expectations.
- The Access to Essential Services category contemplates a range of projects targeted at transformational estate improvement projects and ‘Placemaking’¹¹ regeneration with the goal of creating safer and more livable areas for its tenants, while also discouraging anti-social behaviour. This may include investments in greenery as well as upgrades to alleyways and amenities.
 - The Framework defines the target population as the low-income tenants who reside in the communities in which Flagship is based. Given the identification of a clear target population, Sustainalytics views these activities to be in line with market practice.
- Through the Socioeconomic Advancement and Empowerment category, Flagship intends to focus on improving digital connectivity of its tenants through both direct investments in technology such as broadband, as well as through training programs that target enhancing digital capabilities.
 - Flagship has confirmed that these services will be aimed at tenants who require extra support from an enablement perspective, with a focus on elderly tenants. This is in line with market practice.
- Under the Green Buildings category, Flagship may invest in (i) its existing properties in order to improve the energy performance certificate (EPC) rating of the building(s) by a two-letter grade improvement, and/or (ii) the construction of new green buildings or refinancing of existing buildings that have obtained a grade EPC B or above.

⁸ Flagship Group, “Shared Ownership”, at: <https://www.flagship-homes.co.uk/looking-for-a-home/shared-ownership/>

⁹ (i) Household income must be below GBP80,000 (of GBP 90,000 in London); (ii) Buyers must not own another home (it is permissible to have previously owned a home); (iii) Buyers must be purchasing their first home or be unable to afford to buy through other means

¹⁰ UK Government, Office for National Statistics, ‘Income and wealth: The effects of taxes and benefits on household income, disposable income estimate’, at:

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

¹¹ Placemaking can be defined as a development approach to building connected, structured open spaces that reconnect communities to their natural surroundings.

- Sustainalytics views these criteria to be in line with market practice, and highlights that, according to data from the UK government, residential buildings obtaining a grade of B or higher represent the top 11% of labelled/graded domestic buildings in the UK.¹²
- The Renewable Energy category includes investments that increase renewable energy supply and integration into the energy system for buildings, such as the installation of air source heat pumps. This is in line with market practice.
- The Framework specifies that estimates of investments into the eligible projects may be measured through asset value, capital expenditures ("CAPEX"), or operating expenditures ("OPEX"). Flagship has confirmed that all OPEX will be directly associated with the development and maintenance of the eligible green and social assets.
- Project Evaluation and Selection:
 - Flagship's Board of Directors (the "Board") will be responsible for overseeing the process for the evaluation and selection of eligible projects under the Framework. As part of this process, the Board will (i) approve the addition of eligible projects; (ii) ensure continued compliance with the Framework and market standards; (iii) exclude and replace expenditures that no longer comply with the eligibility criteria, and (iv) facilitate the allocation and impact reporting. As part of this process, the Board will (i) approve the addition of eligible projects; (ii) ensure continued compliance with the Framework and market standards; (iii) exclude and replace expenditures that no longer comply with the eligibility criteria, and (iv) facilitate the allocation and impact reporting. This process may be reviewed at the Board-level or delegated to a sub-committee.
 - Based on the establishment of a formal process and oversight from the Company's Board of Directors, Sustainalytics considers this to be in line with market practice.
- Management of Proceeds:
 - Flagship's Finance team will oversee the process of tracking and allocating net proceeds raised under the Framework. The Company intends to monitor proceeds by maintaining a register of eligible projects to ensure the allocation of proceeds to such projects. Flagship's Board will ensure that the eligible projects available at all times exceed the net proceeds raised under the Framework, for as long as the financing remains in place.
 - The Company has communicated to Sustainalytics that it will apply a 36-month lookback period for CAPEX/OPEX, and intends to fully allocate the funds within 24 months of receipt. Pending allocation, proceeds may be held in cash, invested in money market instruments in line with Flagship's treasury management policy and/or used to repay other debt facilities.
 - Based on the defined management approach and disclosure around the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Within 12 months, Flagship will provide allocation and impact reporting on its website, until maturity of the sustainability debt instruments issued under the Framework. Allocation reporting will include a complete list of the eligible projects/assets financed; a breakdown of financing vs. refinancing; information on unallocated proceeds; and the distribution of net proceeds across project categories.
 - Impact reporting will reflect several qualitative and quantitative impact metrics, which are aligned with the Standards for Social Housing (SRS).¹³ This may include average rent to average market rent of new homes (%), share of new lettings to low-income groups, and EPC rating of existing homes.
 - Based on Flagship's allocation and impact reporting commitments, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Flagship Group 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.

¹² Ministry of Housing, Communities and Local Government, "Live tables on Energy Performance of Buildings Certificates, (2020), at: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates#epcs-for-all-properties-non-domesticand-domestic>

¹³ For more information, see: https://esgsocialhousing.co.uk/wp-content/uploads/2020/11/SRS_final-report-2.pdf

Section 2: Sustainability Strategy of Flagship Group

Contribution of Framework to Flagship's sustainability strategy

Sustainalytics is of the opinion that Flagship demonstrates a commitment to sustainability by virtue of its organizational vision to "solve the housing crisis in the East of England" by developing and providing access to affordable homes for people in house need. In addition, the Company's purpose is to "create sustainable communities" by focusing on reducing the environmental impact of its existing homes.

For the fiscal year ending in March 31, 2020, Flagship provided 579 new affordable homes, 25% of which were social rent¹⁴ properties.¹⁵ By the following year, the Company had provided an additional 445 new affordable homes despite the economic challenges posed by COVID-19.¹⁶ As part of its plans, Flagship has established a "New Build Development" program, through which the Company is targeting the provision of 3,500 affordable properties over a five-year period from 2020 to 2025.¹⁷ This target has helped Flagship influence place-shaping¹⁸ and enhance the life and opportunities of their customers.

In recognition of the potentially adverse impact of carbon emissions originating from its existing properties, Flagship has developed a retrofit program in order to switch to using renewable heating sources. Between 2019 to 2020, the Company installed communal ground source heat pump systems, providing heating services to 113 Flagship homes replacing old and energy inefficient storage heaters.¹⁹ This resulted in a cost reduction of approximately 50% in its tenants heating bill.²⁰ Furthermore, Flagship has installed 300 air source heat pumps into its existing homes, thus reducing energy bills by 50% and energy usage by 70%.²¹ Over a period of five years from 2020 to 2025, Flagship plans to install approximately 3,000 air source heat pumps.²² The Company has also earmarked EUR 2 million (USD 2.8 million) for investments in smart thermostats planned for the over a five-year period from 2020 to 2025, which aims to improve the energy efficiency of existing properties through advanced smart technology.²³ These initiatives are closely tied with the Company's ambition to reduce the environmental impact of its assets.

As part of its mission to end homelessness, in 2020, Flagship launched a charitable foundation called Hopestead (the "Foundation"). The primary objectives of the Foundation are tackling homelessness and creating sustainable communities in the East of England. During the COVID-19 pandemic, the Foundation provided rent debt relief and food parcels to individuals and households that were adversely impacted in 2020.²⁴ Furthermore, in March 2021, the Foundation created a fund to support the Company's efforts towards the alleviation of homelessness by providing grants to external projects, charities or support groups working towards this initiative.²⁵

Sustainalytics is of the opinion that the Flagship Group Sustainable Finance Framework is aligned with the company's overall sustainability strategy and initiatives towards providing affordable housing and will further the Company's action on its key environmental priorities.

Well-positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to yield positive environmental and/or social impact, it is acknowledged that the projects could also lead to negative environmental and social outcomes. Social risks include exacerbation of social inequalities if projects are not properly targeted to vulnerable population as well as occupational health and safety, while environmental risks include the generation of construction waste, land-use changes, and biodiversity issues.

¹⁴ 'Social Rent' refers to tenants will pay rent which is around 50% cheaper than the average price charged by private landlords.

¹⁵ Flagship Group, "Consolidated Financial Statements" (2020), at: <https://www.flagship-group.co.uk/media/2221/flagship-group-financial-statement-2019-20.pdf>

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ Place-shaping refers to molding and re-molding places of work, to alter the mental map of investors, visitors, and residents themselves, therefore improving the places for the better.

¹⁹ Flagship Group, "Consolidated Financial Statements" (2020), at: <https://www.flagship-group.co.uk/media/2221/flagship-group-financial-statement-2019-20.pdf>

²⁰ *Ibid.*

²¹ *Ibid.*

²² Flagship Group Sustainable Finance Framework (June 2021).

²³ *Ibid.*

²⁴ Flagship Group Sustainable Finance Framework (June 2021).

²⁵ Hopestead, "Grant Funding Available To Tackle Homelessness in the East of England", (2021) at: <https://www.hopestead.org/2021/03/04/grant-funding-available-to-tackle-homelessness-in-the-east-of-england/>

Sustainalytics is of the opinion that Flagship is able to manage and/or mitigate potential risks as it has implemented the following measures:

- Establishment of a health and safety strategy and action plan which is overseen by the Company's Health and Safety Committee to ensure the health and safety of its workers and tenants.²⁶ As part of this process, compliance is monitored on a continuous basis supported by policy and procedural reviews to ensure that the Company continues to follow health and safety best practices. Flagship conducts regular training for its staff through initiatives related to safety such as 'Toolbox Talks' and specific risk-based training courses.²⁷ In addition, the Company has a dedicated compliance team to ensure safety compliance across all of its homes.
- Compliance with the provisions of the UK "Health and Safety at Work etc., Act 1974" (the "Act") which sets out the general duties of the employers towards the employees and members of the public. The Company's health and safety policy was built to support the Act and to ensure compliance, a corporate risk register was created.²⁸ To protect the health and safety of anyone within proximity of construction sites, Flagship adheres to Construction Design and Management Regulations to ensure its projects are managed with mitigated risks.
- Moreover, it is important to note the classification of the UK as a "Designated Country" under the Equator Principles, implying the presence of robust environment and social governance systems, legislation, and institutional capacity for protecting the environment and communities which Flagship is subject to.²⁹

Based on these policies, standards, and assessments, Sustainalytics is of the opinion that Flagship 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 of the use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP, and SLP. Sustainalytics has focused below where the impact is specifically relevant in the local context.

The impact of affordable housing in the United Kingdom

According to the UK National Housing Federation, 340,000 homes have to be built each year till 2031, 145,000 of which should be classified as affordable homes.^{30,31} This is required in response to the nearly 8 million people in England who have some form of housing need and for more than 3.8 million of people in housing need, social rented housing³² would be required to address that need.³³ However, only 57,644 affordable homes were completed from 2019 to 2020 representing a shortfall of about 87,000 from the new capacity needed to pull the UK out of its current housing affordability crisis.³⁴ The housing crisis has been further exacerbated by the COVID-19 pandemic, severely delaying housing completion. In recognition of the important role that social housing plays in meeting the country's housing needs, the UK government established the Affordable Homes Programme for 2021-2026 which provides grant funding to support the capital costs of developing affordable housing for rent or sale.³⁵

²⁶ Flagship Group Sustainable Finance Framework (June 2021).

²⁷ A Toolbox Talk is an informal group discussion implemented at Flagship that focuses on a particular safety issue for its operations and properties.

²⁸ Flagship, "Health and Safety Statement of Intent". This document was shared with Sustainalytics and reviewed confidentially.

²⁹ The Equator Principles, "Designated Countries", at: <https://equator-principles.com/designated-countries/>

³⁰ MacFarlane, Isla, "UK needs to build 340,000 new homes a year until 2031", Showhouse at: <https://www.showhouse.co.uk/news/uk-needs-to-build-340000-new-homes-a-year-until-2031/>

³¹ Affordable homes includes social rented, affordable rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. For more information please refer to: [Annex 2: Glossary - National Planning Policy Framework - Guidance - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/940517/AHS_2019-20.pdf)

³² The National Planning Policy Framework (NPPF) defines social rented housing as owned by local authorities and private registered providers (as defined in the section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may be owned by other persons and provided under equivalent rental agreements to the above, as agreed with the local authority or with the Homes and Community Agency. For more information please refer to: [Rent Standards – April 2020](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/940517/AHS_2019-20.pdf)

³³ National Housing Federation, "People In Housing Need", (2020) at: <https://www.housing.org.uk/globalassets/files/report-people-in-housing-need-final.pdf>

³⁴ Ministry of Housing, Communities & Local Government, "Affordable Housing Supply", (2020) at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940517/AHS_2019-20.pdf

³⁵ Wilson Browne Solicitors, "The Affordable Homes Programme 2021 – 2026 at: <https://www.wilsonbrowne.co.uk/news/business/the-affordable-homes-programme-2021-2026/>

Based on the above, Sustainalytics expects that Flagship's financing of affordable housing will contribute to meeting the needs of low-income households as well as the supply-side constraint of the housing market in England.

Importance of digital connectivity and enhancing digital skills in the United Kingdom

It is estimated that 11.3 million adults in the UK are digitally excluded and 37% of these individuals reside in social housing.³⁶ The North East of England has consistently recorded the highest proportion of digitally disengaged population in the country.³⁷ Vulnerable groups such as the elderly and low income households are disproportionately impacted due to a lack of relevant digital skills and high cost of access.³⁸

The COVID-19 pandemic has also highlighted the crucial need for digital connectivity for social inclusion across the UK. Digital exclusion during the pandemic made it more difficult for adults to access support services, health advice, medical appointments and welfare activities.³⁹ To bridge the digital divide, the government has set a target to provide gigabit-capable broadband connectivity to 85% of the UK by 2025 and 5G to the majority of the UK by 2027.⁴⁰ In 2019, the government announced a GBP 1 million (USD 1.4 million) Digital Skills Innovation Fund and GBP 400,000 (USD 560,000) Digital Inclusion Fund to empower underrepresented groups with acquiring digital skills.⁴¹

In this context, Sustainalytics is of the opinion that the Company's investments in improving digital connectivity for tenants will support the UK's efforts to bridge the digital divide and promote social inclusion.

Importance of green buildings and renewables in the United Kingdom

In the UK, residential homes contribute towards a substantial portion of carbon emissions and accounted for 19% of the country's CO₂ emissions in the UK by 2019.⁴² As part of its climate goals, the UK government established the Climate Change Act of 2008 which targets greenhouse gas emissions reduction of at least 80% by 2050 from a 1990 baseline.⁴³ However, most of the housing in the UK was built before the 1990s where standards for insulation and energy performance were not regulated.⁴⁴ Therefore, 80% of the homes which will remain in use by 2050 have already been built with lower energy efficiency standards.⁴⁵ In this regard, retrofitting the existing building stock is essential to reduce the heating/ energy demand and emission reduction in order to achieve the goals of the Climate Change Act.⁴⁶

As part of its Clean Growth Strategy, the UK government has set a target to upgrade all homes to grade C by 2035.⁴⁷ Under this strategy the government also aims to improve the efficiency of "fuel poor" households to the same standard by 2030.⁴⁸ Currently, one in ten households in England is considered to be fuel poor.⁴⁹ Representing about 17% of the total housing stock, social housing has a role to play in reducing carbon emissions from residential properties in the UK.⁵⁰

³⁶ UK Government, "Adults to benefit from digital skills haul", at: <https://www.gov.uk/government/news/adults-to-benefit-from-digital-skills-overhaul>

³⁷ Lloyds Bank, "UK Consumer Digital Index 2019", (2019), at: https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/lb-consumer-digital-index-2019-report.pdf

³⁸ UK Parliament, "COVID – 19 and the digital divide", (2020) at: <https://post.parliament.uk/covid-19-and-the-digital-divide/>

³⁹ *Ibid.*

⁴⁰ UK Government, "Building Digital UK", at: <https://www.gov.uk/guidance/building-digital-uk>

⁴¹ Gov.UK, "New funds to boost diversity of people working in digital and tech jobs" at: <https://www.gov.uk/government/news/new-funds-to-boost-diversity-of-people-working-in-digital-and-tech-jobs>

⁴² UK Government, "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

⁴³ UK Government, "Climate Change Act 2008", at: <https://www.legislation.gov.uk/ukpga/2008/27/contents>

⁴⁴ Sivarajah, Sankar, (2021), "The UK has some of the least energy-efficient housing in Europe", The Conversation, at: <https://theconversation.com/the-uk-has-some-of-the-least-energy-efficient-housing-in-europe-heres-how-to-fix-this-151609>

⁴⁵ UK Green Building Council, "Press Release: UKGBC responds to CCC housing report", (2019) at: <https://www.ukgbc.org/news/ukgbc-responds-to-ccc-housing-report/>

⁴⁶ The Institute of Engineering and Technology, "Scaling Up Retrofit 2050", (2020) at: <https://www.theiet.org/media/5276/retrofit.pdf>

⁴⁷ Delivering Residential Energy Efficiency at: <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1730/173005.htm>

⁴⁸ In UK, under the Low-Income Low Energy Efficiency Indicator (LILEE), a household is considered to be fuel poor if they are living in a property with a fuel poverty energy efficiency rating of band D and when they spend the required amount to heat their home, they are left with a residual income below the official poverty line.

⁴⁹ Annual Fuel Poverty Statistics Report 2020, (2018) at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/882404/annual-fuel-poverty-statistics-report-2020-2018-data.pdf

⁵⁰ Sustainable Energy Association, "Social Housing: Leading the Way to Net Zero", (2019), at: <https://www.sustainableenergyassociation.com/wp-content/uploads/2019/09/SEA-social-housing-digital-compressed-1.pdf>

While the UK's energy infrastructure was designed to be powered by fossil fuels, there is increasing action to shift the electricity mix towards cleaner energy. In 2020, renewable energy surpassed fossil fuels, by providing 43% of the country's electricity compared to fossil fuels' 38.5%.⁵¹ The UK government intends to revise the 2030 renewable energy target share in its energy mix upwards from 50% to 65%.⁵² As part of these efforts, the UK government has outlined in the Future Home Standards various measures such as banning gas boilers from being installed in new homes by 2025 as well as the Domestic Renewable Heat Incentive program to promote the use of renewable heat.^{53,54} Switching to heating systems that use renewable sources can contribute towards the UK reducing its carbon emissions and meet its targets.

Overall, Sustainalytics is of the opinion that the Company's investments in green buildings and renewables will have a positive impact on the UK's residential sector and support its ability to meet its climate related goals.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) and loan(s) issued under the Sustainable Finance Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Affordable Housing	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
	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	11. Sustainable cities and communities	11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities
Socioeconomic Advancement and Empowerment	4. Quality Education	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship Indicators
Green Buildings	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency.
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.

⁵¹ ReNews, "Renewables outstrip fossil fuels in UK in 2020", (2021), at: <https://renews.biz/67478/renewables-outstrip-fossil-fuels-in-uk-in-2020/>

⁵² NS Energy at: <https://www.nsenergybusiness.com/news/industry-news/uk-renewable-target-2030-nic/>

⁵³ Energy Live News, "Future Home Standards" at: <https://www.energylivenews.com/2019/10/03/future-homes-standard-government-to-ban-fossil-fuel-systems-in-new-builds-by-2025/>

⁵⁴ A Greener Alternative at: <https://www.agreeneralternative.co.uk/what-is-the-renewable-heat-incentive-rhi/>

Conclusion

Flagship has developed the Sustainable Finance Framework under which it may issue sustainability debt instruments and use the proceeds to finance and/or refinance a wide range of projects including affordable housing, access to essential services, digital connectivity, green buildings, and renewable energy. Sustainalytics considers that the projects funded by the net proceeds under the Framework are expected to improve housing affordability and support local communities' social economic wellbeing as well as the environment.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Company and that the use of proceed categories will contribute to the advancement of the UN Sustainable Development Goals 1, 4, 7, 11. Additionally, Sustainalytics is of the opinion that Flagship has implemented adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Flagship is well-positioned to issue sustainability debt instruments and that the 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, Social Loan Principles 2021, and Sustainability Bond Guidelines 2021.

Appendices

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

Section 1. Basic Information

Issuer name:	Flagship Group
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Flagship Group Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	July 1, 2021
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:

- | | |
|--|--|
| ☒ Use of Proceeds | ☒ Process for Project Evaluation and Selection |
| ☒ Management of Proceeds | ☒ Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| ☒ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification | ☐ Rating |
| ☐ 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 – Affordable Housing, Access to Essential Services, Socioeconomic Advancement and Empowerment, Green Buildings, and Renewable Energy – 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 Goals 1, 4, 7 and 11.

Use of proceeds categories as per GBP:

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

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

Use of proceeds categories as per SBP:

- | | |
|---|---|
| ☐ Affordable basic infrastructure | ☒ Access to essential services |
| ☒ Affordable housing | ☐ Employment generation (through SME financing and microfinance) |
| ☐ Food security | ☒ Socioeconomic advancement and empowerment |
| ☐ Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | ☐ 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):

Flagship Group's ("Flagship") Board of Directors will be responsible for overseeing the process for the evaluation and selection of eligible projects under the Framework. As part of this process, the Board will approve the addition of eligible projects/expenditures and will be responsible for confirming continued compliance with the Framework. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

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

Information on Responsibilities and Accountability

- | | |
|--|--|
| ☒ Evaluation / Selection criteria subject to external advice or verification | ☐ In-house assessment |
| ☐ Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

Net proceeds will be managed by Flagship's Finance department. The Company intends to fully allocate and/or disburse proceeds within 24 months of issuance of financing transactions. Pending full allocation, the proceeds will temporarily be invested according to the Company's normal liquidity processes. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| ☒ Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| ☐ Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| ☐ Allocations to future investments only | ☒ Allocations to both existing and future investments |
| ☐ Allocation to individual disbursements | ☐ Allocation to a portfolio of disbursements |

- ☒ Disclosure of portfolio balance of unallocated proceeds
 ☐ Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Flagship Group intends to report on allocation of proceeds on its website on an annual basis until full allocation. In addition, Flagship Group is committed to reporting on relevant quantitative and qualitative impact metrics, which align with the Sustainability Reporting Standards for Social Housing (SRS). Sustainalytics views Flagship Group's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- ☒ Project-by-project
 ☐ On a project portfolio basis
- ☐ Linkage to individual bond(s)
 ☐ Other (please specify):

Information reported:

- ☒ Allocated amounts
 ☐ Sustainability Bond financed share of total investment
- ☐ Other (please specify):

Frequency:

- ☒ Annual
 ☐ Semi-annual
- ☐ Other (please specify):

Impact reporting:

- ☒ Project-by-project
 ☐ On a project portfolio basis
- ☐ Linkage to individual bond(s)
 ☐ Other (please specify):

Information reported (expected or ex-post):

- ☐ GHG Emissions / Savings
 ☐ Energy Savings
- ☐ Decrease in water use
 ☒ Number of beneficiaries
- ☒ Target populations
 ☒ Other ESG indicators (please specify): Several social and environmental qualitative and quantitative indicators, as outlined in the Framework.

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): Company's website. |
| ☐ 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. 2 nd opinion) | ☐ Certification |
| ☐ Verification / Audit | ☐ Rating |
| ☐ Other (<i>please specify</i>): | |

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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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.



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The
Social Bond
Principles