



# SECOND PARTY OPINION

## on the sustainability of THFC's Social Bonds Framework

V.E is of the opinion that THFC's Bonds Framework is aligned with the four core components the Social Bond Principles 2020 ("SBP").



### Framework

#### Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts	Advanced			
ESG risks management	Robust			

#### SDG Mapping



#### Characteristics of the Framework

Social Loan Categories	Affordable Housing
Location	United Kingdom
Target population	Low income population
Existence of framework	Yes
Share of refinancing	No refinancing

### Issuer

#### Controversial Activities

The Issuer appears to not be involved in any of the 17 controversial activities screened under our methodology:

- |   |  |   |  |
|---|--|---|--|
| <input type="checkbox"/> Alcohol              | <input type="checkbox"/> Fossil fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography             |
| <input type="checkbox"/> Animal welfare       | <input type="checkbox"/> Coal                  | <input type="checkbox"/> Human embryonic stem cells | <input type="checkbox"/> Reproductive medicine   |
| <input type="checkbox"/> Cannabis             | <input type="checkbox"/> Gambling              | <input type="checkbox"/> Military                   | <input type="checkbox"/> Tar sands and oil shale |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Genetic engineering   | <input type="checkbox"/> Nuclear power              | <input type="checkbox"/> Tobacco                 |
| <input type="checkbox"/> Civilian firearms    |  |   |  |

#### Controversies

Number of controversies	None
Frequency	NA
Severity	NA
Responsiveness	NA

### Coherence

- Coherent
- Partially coherent
- Not coherent

We are of the opinion that the contemplated Framework is coherent with THFC's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.



## Keys findings

### Use of Proceeds –aligned with the SBP and best practices identified by VE

- Eligible Loans are clearly defined and detailed, the Issuer has communicated the nature of the expenditures, the eligibility criteria, the target populations, and the location of the Housing Associations that will receive the Eligible Loans.
- The Social Objectives are clearly defined, these are relevant for all the Eligible Loans and set in coherence with sustainability objectives defined in international standards.
- The Expected Social Benefits are clear and precise, these are considered relevant, measurable, and will be quantified for all the Eligible Loans in the reporting.
- The Issuer has committed to not have refinancing.

### Evaluation and Selection - aligned with the SBP and best practices identified by VE

- The process for Loans Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, monitoring of Eligible Loans). The roles and responsibilities clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework and in this SPO.
- Eligibility criteria (selection and exclusion) for loans selection have been clearly defined and detailed by the Issuer, for all of the Eligible Loans.
- The process applied to identify and manage potentially material E&S risks associated with the loans is publicly disclosed (in the herewith SPO and in the Framework). The Process is considered robust: it combines monitoring, identification and corrective measures for all Eligible Loans.

### Management of Proceeds - aligned with the SBP

- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework and this SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be tracked by the Issuer in an appropriate manner and attested to in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible loans made during that period.
- The Issuer has provided information on the procedure that will be applied in case of loans divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework.



#### Reporting - aligned with the SBP and best practices identified by VE

- The Issuer has committed to report on the Use of Proceeds annually, until Bond maturity. The report and its external verification will be publicly available until bond maturity.
- The reporting will cover relevant information related to the allocation of Bonds proceeds and to the expected sustainable benefits of the loans. The Issuer has also committed to report on material developments and controversies related to the Eligible Loans.
- The reporting methodology and assumptions used to report on social benefits of the Eligible Loans will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Loans until full allocation and in case of material changes. The Indicators used to report on social benefits of the Eligible Loans will be reviewed internally.

#### Contact

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# SCOPE

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V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Social Bonds<sup>1</sup> (“Bonds”) to be issued by The Housing Finance Corporation (the “Issuer” or “THFC”) in compliance with the Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the ICMA’s Social Bond Principles (“SBP”) - edited in June 2020.

Our opinion is built on the review of the following components:

- Framework: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Bonds’ potential contribution to sustainability and its alignment with the four core components of the SBP 2020.
- Issuer: we assessed the management of potential stakeholder related ESG controversies and its involvement in controversial activities<sup>2</sup>.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held via a telecommunications system.

We carried out our due diligence assessment from November 4<sup>th</sup>, 2020 to March 31<sup>st</sup>, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

## Scope of External Reviews

- |                                     |  |                          |  |
|-------------------------------------|--|--------------------------|--|
| <input checked="" type="checkbox"/> | Pre-issuance Second Party Opinion            | <input type="checkbox"/> | Independent verification of impact reporting |
| <input checked="" type="checkbox"/> | Independent verification of funds allocation |                          |  |

<sup>1</sup> The “Social Bond” is to be considered as a bond to be potentially issued, subject to the discretion of the Issuer. The name “Social Bond” has been decided by the Issuer: it does not imply any opinion from V.E.

<sup>2</sup> The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

# COHERENCE

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Coherent
Partially coherent
Not coherent

We are of the opinion that the contemplated Social Bond Framework is coherent with THFC's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

According to UN, the share of urban population living in slums rose to 24% in 2018. Sustainable Development Goals (SDG) seeks to tackle this issue, establishing the target 11.1, in order to promote the access to adequate, safe and affordable housing for all. This is part of the challenge to promote sustainable cities and make cities and human settlements inclusive, safe, resilient, and sustainable<sup>3</sup>.

A research conducted by Lincoln Institute of Land Policy revealed that of 200 cities around the world, 90% were considered unaffordable<sup>4</sup>. According to a research developed by the World Economic Forum, "the reasons for a lack of affordability vary from city to city, but commonly include housing costs rising faster than incomes, supply of houses not keeping up with demand, scarcity of land, and demographic changes such as population growth, ageing and changes in household composition"<sup>5</sup>.

As a Group, The Housing Finance Corporation provides financial support to the UK national system, specifically to Housing Associations regulated by the UK authorities to provide social affordable housing alternatives to vulnerable populations.

THFC provides financial support to more than 160 Housing Associations to meet the demand for affordable housing. The Issuers adhere to six main principles:

- Funds are raised solely for on-lending to Registered Providers of affordable housing.
- Funds are on-lent on a substantially identical maturity, interest and repayment profile, ensuring best possible terms for HAs and no material mismatch risk.
- No currency risk is taken by the Group or passed on to its borrowers.
- Loans are fully secured with covenanted minimum levels of security.
- All borrowers undergo a thorough credit assessment either through THFC's own credit due diligence process and proprietary credit grading model or, in the case of bLEND, via an external rating agency.
- The financial position of borrowers is closely monitored on an ongoing basis, including measurement against covenanted loan security and loan interest cover undertakings.

THFC is now an early adopter of the social housing sector's Sustainability Reporting Standard, a first of its kind initiative to establish a sector standard for ESG reporting.

By creating a Framework to finance loans for Housing Associations, the Issuer coherently aligns with its strategy and addresses important sustainability issues of the housing sector.

<sup>3</sup> <https://sdgs.un.org/topics/sustainable-cities-and-human-settlements>

<sup>4</sup> [https://www.lincolnst.edu/sites/default/files/pubfiles/kallergis\\_wp18ak1.pdf](https://www.lincolnst.edu/sites/default/files/pubfiles/kallergis_wp18ak1.pdf)

<sup>5</sup> [http://www3.weforum.org/docs/WEF\\_Making\\_Affordable\\_Housing\\_A\\_Reality\\_In\\_Cities\\_report.pdf](http://www3.weforum.org/docs/WEF_Making_Affordable_Housing_A_Reality_In_Cities_report.pdf)

# FRAMEWORK

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The Issuer has described the main characteristics of the Bonds within a formalised Social Bonds Framework which covers the four core components of the SBP 2020 (the last updated version was provided to V.E on March 29<sup>th</sup>, 2021). The Issuer has committed to make this document publicly accessible on THFC's website, in line with good market practices.

## Alignment with the Social Bond Principles

### Use of Proceeds



The net proceeds of the Bonds will exclusively finance, in full, eligible loans falling under one Social Category ("Eligible Categories" or "Eligible Loans"), as indicated in Table 1.

- Eligible Loans are clearly defined and detailed, the Issuer has communicated the nature of the expenditures, the eligibility criteria, the target populations, and the location of the Housing Associations that will receive the Eligible Loans.
- The Social Objectives are clearly defined, these are relevant for all the Eligible Loans and set in coherence with sustainability objectives defined in international standards.
- The Expected Social Benefits are clear and precise, these are considered relevant, measurable, and will be quantified for all the Eligible Loans in the reporting.
- The Issuer has committed to not have refinancing.

#### BEST PRACTICES

- ⇒ Content, eligibility and exclusion criteria are clear and in line with international standards for all categories.
- ⇒ Relevant social benefits are identified and measurable for all loan categories.
- ⇒ The Issuer has committed to not have refinancing.

Table 1. V.E' analysis of the Eligible Category, Sustainability Objective and Expected Benefits as presented in the Issuer's Framework

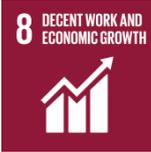
- All the Eligible Loans will be granted to regulated Housing Association within the UK.

ELIGIBLE CATEGORY	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Affordable Housing	<p>Loans provided by the Issuer will be used by Eligible Housing Associations to finance social and affordable housing projects. This is a corporate lending operation.</p> <p>Borrowers will use the loans to Finance the construction, refurbishment and acquisition of social and affordable housing.</p> <p>Units used by the Housing Association (HA) must comply with Government definition of affordable housing.</p> <p>Borrowers must comply with the UK's regulatory framework to be eligible. The Regulator of Social Housing (RSH) oversees the HA compliance with the regulatory framework.</p> <p>Housing associations also provide a number of other services to address social issues, such as training and education, digital skills, financial literacy, programmes to help tenants gain employment, among others.</p> <p>Final beneficiaries of this programme are defined as low-income populations according to the National Planning Policy Framework<sup>6</sup>. Local planning authorities use methodologies based on this framework to identify target populations.</p>	<p><u>Affordable Housing</u></p> <p>Increase in the number of available affordable housing units</p> <p>Increase in social programmes provided to social housing residents</p>	<p>The Eligible Loans are clearly defined and detailed. The Issuer has communicated the nature of the expenditures, the target population, the eligibility criteria, and the location of the Housing Associations that will receive the Eligible Loans.</p> <p>The Social Objectives are clearly defined, these are relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Benefits are clear and precise, these are considered relevant, measurable and will be quantified for all Eligible Loans in the reporting.</p>

<sup>6</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/810197/NPPF\\_Feb\\_2019\\_revised.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/810197/NPPF_Feb_2019_revised.pdf)

### SDG Contribution

The Eligible Categories are likely to contribute to 3 of the United Nations' Sustainable Development Goals ("SDGs"), namely: SDG 1, SDG 8, SDG 11.

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Affordable Housing		<p>1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.</p> <hr/> <p>1.4 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.</p>
		<p>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.</p>
		<p>11.1 Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</p>



## Evaluation and Selection of Eligible Loans



- The process for Loans Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, monitoring of Eligible Loans). The roles and responsibilities clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework and in this SPO.
- Eligibility criteria (selection and exclusion) for loans selection have been clearly defined and detailed by the Issuer, for all of the Eligible Loans.
- The process applied to identify and manage potentially material E&S risks associated with the loans is publicly disclosed (in the herewith SPO and in the Framework). The Process is considered robust: it combines monitoring, identification and corrective measures for all Eligible Loans (see detailed analysis on pages 14 - 15).

### Process for Loans Evaluation and Selection

- The assessment process in the selection of borrowers is considered clearly defined, detailed, and well-structured:
  - Prospective borrowers are assessed based on their financial profile and governance. A THFC Relationship Manager (RM) is assigned to carry out the evaluation of a prospective borrower. The assessment includes an analysis of accounts, business plans and projections, scrutiny of regulatory and audit reports, comparison of performance indicators, review of risk registers and an assessment of management capabilities.
  - Eligible borrowers must be Housing Associations, registered and regulated as a provider of social housing with the relevant regulator.
  - THFC considers all activities of the Housing Association in relation to its corporate purpose and mission and its provision of social and affordable housing.
  - Following approval from the Executive Committee the RM will issue a Term Sheet and a mandate for the borrower to accept. This leads to the Treasury team starting preparations for loan documentation and new issuance and a pricing of the loan, in accordance with borrower requirements on timing.
- The Executive Committee (“the Committee”) is responsible for the utilisation of the proceeds in accordance with the Framework criteria. This Committee is composed of representatives of:
  - Chief Executive
  - Group Treasurer
  - Credit and Risk Director.



- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
  - The Executive Committee will review annually that borrowers (outstanding loans) are in compliance with the social housing regulations. In addition, loan agreements contain covenants for Housing Association to remain regulated. In addition, the RM is in charge of maintaining and monitoring the portfolio (borrowers) compliance of the loan agreements.
  - The Regulator of Social Housing conducts thorough monitoring of UK Housing Associations which would include potential ESG controversies. THFC's own monitoring of ESG controversies will rely on the regulator, as THFC work closely with the regulator on these topics.
  - The Executive Committee decisions on all new loans is registered in meeting minutes. Also, following approval and acceptance of the terms by the borrower, all loans are documented by a loan agreement.

### Eligibility Criteria

The process relies on explicit eligibility criteria (selection and exclusion), relevant to the social objectives defined for the Eligible Categories.

- The selection criteria are based on the definition of the Eligible Category, in Table 1 in the Use of Proceeds section.
- THFC reserves the right to exclude a borrower from eligibility if it cannot be ascertained with confidence that the funds will go toward activities compliant with this framework, meaning the HA is no longer regulated.

### BEST PRACTICES

- ⇒ Eligibility criteria for loans selection are clearly defined and detailed for all of the Eligible Loans.
- ⇒ The Issuer reports that it will monitor compliance of selected loans with eligibility criteria specified in the Framework throughout the life of the instrument and has provided details on content, frequency, duration and on procedure adopted in case of non-compliance.
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the loans throughout the life of the instrument and has provided details on frequency, content and procedures in case a controversy is found on a project.



## Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework and this SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be tracked by the Issuer in an appropriate manner and attested to in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible loans made during that period.
- The Issuer has provided information on the procedure that will be applied in case of loans divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework.

## Management Process

- The net proceeds of the Bonds will be credited to the Issuer's general treasury account. In the majority of cases, proceeds will be immediately on-lent to Eligible Housing Associations, but the disbursement may be some months after (so-called deferred drawdown) depending on the loan agreement with the borrower.
- The bonds' proceeds are matched to Eligible Loans drawdowns.
- The Issuer uses software from their clearing bank to track the movement of funds on drawdown date. In addition, the Issuer uses a Treasury Management System, a Cash Management System and a spreadsheet solution to maintain the records of transactions.
- The unallocated funds would be invested in products which minimise risk (short term bank deposits) and include UK bank deposits and Government securities.
- In case of loan ineligibility, the Issuer has committed to reallocate the proceeds to other Eligible Loans within 6 months, or to redeem the bond.

### BEST PRACTICES

- ⇒ The allocation period is 24 months or less.
- ⇒ The Issuer has provided information on the procedure that will be applied in case of divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework.



## Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until Bond maturity. The report and its external verification will be publicly available until bond maturity.
- The reporting will cover relevant information related to the allocation of Bonds proceeds and to the expected sustainable benefits of the loans. The Issuer has also committed to report on material developments and controversies related to the Eligible Loans.
- The reporting methodology and assumptions used to report on social benefits of the Eligible Loans will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Loans until full allocation and in case of material changes. The Indicators used to report on social benefits of the Eligible Loans will be reviewed internally.

## Indicators

The Issuer has committed to transparently communicate at Eligible Loan level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are relevant and exhaustive.

### REPORTING INDICATORS

- ⇒ A list of Eligible Housing Associations
- ⇒ Amounts allocated and amounts on-lent.
- ⇒ A statement of amounts allocated but not yet drawn down and of any funds held by THFC pending drawdown.

- Social benefits: The indicators selected by the Issuer to report on the social benefits are clear, relevant and exhaustive. The Social Bond Report will include a qualitative section, with example case studies of the borrowers whose loans were financed under the Social Bond Framework.

ELIGIBLE CATEGORIES	SOCIAL BENEFITS INDICATORS
Affordable Housing	Number of additional units developed (#) Share/number of additional homes split by tenure

## BEST PRACTICES

- ⇒ The Issuer will report on the Use of Proceeds until bond maturity. The issuer report will be publicly available.
- ⇒ The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the loans. The Issuer has also committed to report on material development related to the loans, including ESG controversies.
- ⇒ The indicators selected by the Issuer are exhaustive with regards to allocation reporting. The indicators selected by the Issuer are clear and relevant and cover all expected benefits associated with the Eligible Categories.
- ⇒ The issuer will report on allocation of proceeds and on social benefits at project level.
- ⇒ The reporting methodology and assumptions used to report on social benefits of the Eligible Loans will be disclosed publicly.

## Contribution to sustainability

### Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be advanced.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Affordable Housing	ADVANCED	<p>Affordable Housing programmes aim to provide housing alternatives to low-income and vulnerable groups in UK. The definition of vulnerable might vary depending on the different areas in the UK where the Housing Associations operate. However, they are all based on criteria set by local authorities to identify vulnerable target populations. Demand for Affordable Housing is often much higher than supply, demonstrating the relevance of these projects.</p> <p>In addition, Housing Associations provide other services to promote empowerment and local development, such as training and education, financial literacy, digital skills, forms of SME financing, among others, supporting the empowerment of target populations beyond the provision of affordable housing.</p>



## ESG Risks Identification and Management systems in place at project level

The identification and management of the environmental and social risks associated with the Eligible Projects are considered Robust.

	ELIGIBLE CATEGORY
	AFFORDABLE HOUSING
Environmental performance	Robust
Access to essential services and security for inhabitants	Robust
Responsible relations with clients	Robust
Business Ethics	Robust
<b>OVERALL ASSESSMENT</b>	<b>Robust</b>

### Environmental performance

THFC has participated as a member of the working group and signed the Sustainability Reporting Standard for the social housing sector. With this, the Issuer is expected to enhance its monitoring and collection of data in order to manage the Environmental risks in a proper way. In this regard, one of the criteria to be analysed is the Energy Performance Certificates (EPC) ratings of social housing stocks, GHG emissions, Climate Change Adaptation, among others. The data will be required from the borrowers (however it remains voluntary).

As part of its Government commitments, the UK has set a target of having all UK homes (private and social) rated as C or above in the EPC rating, by 2035.

### Access to essential services and security for inhabitants

The Regulatory Framework for Housing Associations requires compliance with the Decent Homes Standards<sup>7</sup>, which aims to address the coverage of essential services and security for inhabitants. In general terms, a decent home should comply with the following four criteria: (i) meets the current statutory minimum standard for housing (under the Health and Safety Rating System), (ii) a reasonable state of repair, (iii) reasonable modern facilities and services and (iv) provides reasonable degree of thermal comfort. The access to different services (such as an electrical system, a bathroom, and other quality standards for homes) are part of the Decent Homes Standards criteria. This standard applies to all social housing.

Fire safety issues have been tackled in the published Social Housing White Paper<sup>8</sup>, detailing the plan to strengthen the regulatory framework in this regard.

<sup>7</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/7812/138355.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/7812/138355.pdf)

<sup>8</sup> <https://www.gov.uk/government/publications/the-charter-for-social-housing-residents-social-housing-white-paper>



### Responsible relations with clients

Rules on tenancy are established in the Tenancy Standards<sup>9</sup>. These rules guide the Housing Associations towards a responsible and transparent relationship with tenants.

According to the Tenancy Standards, Registered providers shall publish clear and accessible policies which outline their approach to tenancy management, including interventions to sustain tenancies and prevent unnecessary evictions, and tackling tenancy fraud. There are charity institutions and legal aid to provide support to tenants in case they face a risk of eviction.

Housing Associations set their rents in accordance with the Government's Policy Statement on Rents for Social Housing 2018 and in compliance with the Rent Standard published by the Regulator for Social Housing.

The 'Tenant involvement and Empowerment Standards'<sup>10</sup> set rules to provide a proper customer service, choice and complaints system to the beneficiaries. Landlords shall have a complaints policy to face potential complaints from Tenants. In case the Landlord cannot resolve the problem, the tenant can make a complaint to a 'Designated Person' (local counsellor or a tenant panel) and finally, if the problem cannot be resolved in the previous instances, tenants can contact the Housing Ombudsman.

### Business Ethics

In terms of money laundering, THFC is required to comply with the anti-money laundering legislation, namely, Proceeds of Crime Act 2002, Terrorism Act 2000 and Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017. THFC operates its own whistleblowing policy in accordance with The Public Interest Disclosure Act 1998 and conducts regular trainings on this topic to its employees.

The National Housing Federation (NHF) published a Code of Governance (2020) to lay out the standards expected of Regulated Providers in relation to Board performance and compliance within the organisation, covering the mitigation of risks pertaining to fraud, corruption, among others.

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<sup>9</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/914616/Tenancy\\_Standard\\_2015.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/914616/Tenancy_Standard_2015.pdf)

<sup>10</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/914637/Tenant\\_Involvement\\_and\\_Empowerment\\_Standard.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/914637/Tenant_Involvement_and_Empowerment_Standard.pdf)



# ISSUER

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## Management of ESG Controversies

As of today, the review conducted by V.E did not reveal any ESG controversy against THFC over the last four years.

## Involvement in Controversial Activities

The Issuer appears to be not involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

# METHODOLOGY

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In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V. E's Scientific Council. All employees are signatories of V. E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## ISSUANCE

### Alignment with the Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Issuance has been evaluated by V.E according to the ICMA's Social Bond Principles - June 2020 ("SBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

#### Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Social Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

#### Process for evaluation and selection

The evaluation and selection processes are assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

#### Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

#### Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

### Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental objectives, as well the management of the associated potential negative impacts and externalities.

#### Expected positive impact of the activities on social objectives

The expected positive impact of activities on environmental objectives to be financed by the Issuer is assessed based on:

- i) the relevance of the activity to respond to an important social objective for the sector of the activity
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders, targeting those populations most in need
- iii) the magnitude and durability of the potential impact of the proposed activity on the social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);



## Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed based on V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## ISSUER

### Management of stakeholder related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Frequency: reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, V.E's controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

### Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

## V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted most of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.



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