August 2021

SECOND PARTY OPINION

on the sustainability of THFC's Sustainable Bonds Framework

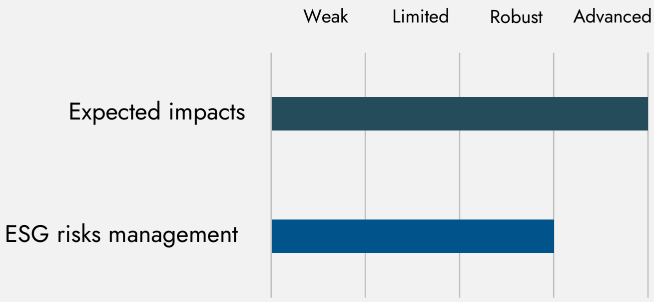
V.E considers that THFC's Bonds Framework is aligned with the four core components of the ICMA's Green Bond Principles 2021 ("GBP") and Social Bond Principles 2021 ("SBP").

Framework

Contribution to Sustainability:

Advanced   Limited

Robust   Weak



SDG Mapping

Characteristics of the Framework	
Green and Social Loan Categories	• Affordable Housing. • Green Buildings. • Renewable Energy. • Energy Efficiency.
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:

☐ Alcohol
☐ Animal welfare
☐ Cannabis
☐ Chemicals of concern
☐ Civilian firearms
☐ Fossil fuels industry
☐ Coal
☐ Gambling
☐ Genetic engineering
☐ High interest rate lending
☐ Human embryonic stem cells
☐ Military
☐ Nuclear power
☐ Pornography
☐ Reproductive medicine
☐ Tar sands and oil shale
☐ Tobacco

Controversies	
Number of controversies	None
Frequency	NA
Severity	NA
Responsiveness	NA

Coherence

Coherent
Partially coherent
Not coherent

V.E considers that the Framework is coherent with THFC's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

Key Findings

Use of Proceeds – aligned with the GBP & SBP

- Most Eligible Categories are clearly defined, 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 eligibility criteria of the Renewable Energy and Energy Efficiency categories could be further defined.
- The Environmental and 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 Environmental and Social Benefits are clear and precise, these are considered relevant, measurable, and will be quantified for all the Eligible Categories in the reporting.
- The Issuer has committed to not have refinancing.

Evaluation and Selection – aligned with the GBP & SBP

- 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 are 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 by the Issuer, for a majority of Eligible Categories.
- 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 18 - 20).

Management of Proceeds – aligned with the GBP & 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 GBP & SBP

- 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 environmental and social benefits of the Eligible Categories 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 environmental and social benefits of the Eligible Categories will be reviewed internally.

Contact

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SCOPE

V.E was commissioned to provide an independent opinion (thereafter "Second Party Opinion" or "SPO") on the sustainability credentials and management of the Social and Sustainable Bonds[1] ("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 Green Bond Principles ("GBP") and Social Bond Principles ("SBP") - both edited in June 2021.

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 social and environmental commitments, the Bonds' potential contribution to sustainability and its alignment with the four core components of the GBP 2021 & SBP 2021.
- Issuer: we assessed the management of potential stakeholder related ESG controversies and its involvement in controversial activities[2].

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 July 6th to August 20th, 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

☒	Pre-issuance Second Party Opinion	☐	Independent verification of impact reporting
☒	Independent verification of funds allocation	☐	Climate Bond Initiative Certification

[1] The "Social" or "Sustainable" Bond is to be considered as a bond to be potentially issued, subject to the discretion of the Issuer. The name "Social" or "Sustainable" Bond" has been decided by the Issuer: it does not imply any opinion from V.E.

[2] 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

Coherent
Partially coherent
Not coherent

We consider that the contemplated Sustainable 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[3]. A research conducted by Lincoln Institute of Land Policy revealed that of 200 cities around the world, 90% were considered unaffordable[4]. 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"[5].

Financial institutions have a great potential to support social and economic development as well as the transition to a low carbon and sustainable economy. Their action is key in the promotion of effective solutions for the development of sustainable finance products and services, and the minimization of the negative impact of their investments and activities on the environment, people and society. Housing lenders can play a significant role in dealing with these challenges by integrating ESG factors in their financing decisions. By integrating environmental and social risks into the assessment of loans and corporate financing, as well as into their investment products, housing lenders can influence borrowers' behaviour towards more environmentally friendly activities and support projects with a high social outcome. Housing lenders can also effectively contribute to financial inclusion and to the reduction of inequalities by ensuring the accessibility of adequate and affordable housing.

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 Issuer 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.

[3] https://sdgs.un.org/topics/sustainable-cities-and-human-settlements
[4] https://www.lincolninst.edu/sites/default/files/pubfiles/kallergis_wp18ak1.pdf
[5] http://www3.weforum.org/docs/WEF_Making_Affordable_Housing_A_Reality_In_Cities_report.pdf

As part of the UK's commitment to achieving net zero by 2050[6], the UK Government has tasked Housing Associations to improve all the social housing stock to be EPC (Energy Performance Certificates) rated C or higher by 2030. Currently, only 60% of units meeting such requirement. Through financing, THFC supports Housing Associations on the decarbonisation and energy efficiency of social homes, and to achieve EPC by 2030 compliance. 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. It was one of the first ones in the sector to issue the green loans in 2012.

By creating a Framework to finance loans for Housing Associations, and to support the development of energy efficiency and renewable energy in the social housing sector, the Issuer coherently aligns with its strategy and addresses important sustainability issues of the housing sector.

[6] https://publications.parliament.uk/pa/cm5801/cmselect/cmenvaud/346/34605.htm

FRAMEWORK

The Issuer has described the main characteristics of the Bonds within a formalised Sustainable Bonds Framework which covers the four core components of the GBP & SBP 2021 (the last updated version was provided to V.E on August 18th, 2021). The Issuer has committed to make this document publicly accessible on THFC's website, in line with good market practices.

Alignment with the Green and Social Bond Principles

Use of Proceeds

Not Aligned	Partially Aligned	Aligned	Best Practices

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

- Most Eligible Categories are clearly defined, 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 eligibility criteria of the Renewable Energy and Energy Efficiency categories could be further defined.
- The Environmental and 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 Environmental and Social Benefits are clear and precise, these are considered relevant, measurable, and will be quantified for all the Eligible Categories in the reporting.
- The Issuer has committed to not have refinancing.

BEST PRACTICES

⇒ Relevant environmental and 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

- Nature of the expenditures: Eligible Loans granted to regulated Housing Association within the UK.
- Location of the Eligible Loans: United Kingdom.

ELIGIBLE CATEGORY	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Affordable Housing	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. Borrowers will use the loans to Finance the construction, refurbishment and acquisition of social and affordable housing. Units used by the Housing Association (HA) must comply with Government definition of affordable housing. 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. 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. Final beneficiaries of this programme are defined as low-income populations according to the National Planning Policy Framework[7]. Local planning authorities use methodologies based on this framework to identify target populations.	Affordable Housing Increase in the number of available affordable housing units Increase in social programmes provided to social housing residents	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. The Social Objectives are clearly defined, these are relevant and set in coherence with sustainability objectives defined in international standards. The Expected Benefits are clear and precise, these are considered relevant, measurable and will be quantified for all Eligible Loans in the reporting.

[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/810197/NPPF_Feb_2019_revised.pdf

ELIGIBLE CATEGORY	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Green Buildings	Financing the construction of green buildings or retrofit works to green the existing stock. Eligibility criteria • Projects must be located in the UK • Newly constructed units must have an EPC rating of B or above • Projects that improve unit EPC rating to B or above or by two notches • Projects that improve unit energy efficiency by 30% or more are eligible without EPC ratings Target populations • People on low incomes • In receipt of Universal credit or other state benefits • Those eligible for shared ownership or other routes to affordable home ownership • HA tenants in low-EPC homes	Climate Change Mitigation GHG emissions reduction Increase in UK housing units in line with legislated targets for carbon emissions	The Eligible Loans are clearly defined and detailed. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of the Housing Associations that will receive the Eligible Loans. The Environmental Objectives are clearly defined, these are relevant and set in coherence with sustainability objectives defined in international standards. The Expected Benefits are clear and precise, these are considered relevant, measurable and will be quantified for all Eligible Loans in the reporting.
Renewable Energy	Financing the generation of renewable energy, including, but not limited to, solar panel installation Eligibility criteria • Projects must be located in the UK • Projects must achieve emissions below 100g CO_2/kWh	Climate Change Mitigation GHG emissions avoidance	The Eligible Loans are partially defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of the Housing Associations that will receive the Eligible Loans. - An area for improvement is to clarify eligible technologies, and in the case that biomass is eligible, to specify sourcing requirements. The Environmental Objectives are clearly defined, these are relevant and set in coherence with sustainability objectives defined in international standards. The Expected Benefits are clear and precise, these are considered relevant, measurable and will be quantified for all Eligible Loans in the reporting.

ELIGIBLE CATEGORY	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Energy Efficiency	Financing expenditures that reduce energy consumption or greenhouse gas emission intensity and/or manage and store energy e.g. energy storage, district heating, smart grids and other singular works to buildings that do not alone constitute a 'retrofit'. Eligibility criteria • Projects must be located in the UK • Projects that improve energy efficiency by 30% or more (on the element being improved) • Projects exclude fossil fuels	Climate Change Mitigation GHG emissions Reduction	The Eligible Loans are partially defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of the Housing Associations that will receive the Eligible Loans. - An area for improvement is to clarify what would be eligible for energy storage and district heating The Environmental Objectives are clearly defined, these are relevant and set in coherence with sustainability objectives defined in international standards. The Expected Benefits are clear and precise, these are considered relevant, measurable and will be quantified for all Eligible Loans in the reporting.

SDG Contribution

The Eligible Categories are likely to contribute to four of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Affordable Housing	1 NO POVERTY	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. 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.
Renewable Energy	7 AFFORDABLE AND CLEAN ENERGY	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Green Buildings		7.3 By 2030, double the global rate of improvement in energy efficiency.
Energy Efficiency		
Affordable Housing	11 SUSTAINABLE CITIES AND COMMUNITIES	11.1 Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.
Green Buildings		11.3 Enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management.
Green Buildings	13 CLIMATE ACTION	UN SDG 13 consists in taking urgent action to combat climate change and its impacts. The housing sector can contribute to this goal by investing in the transition to net-zero carbon buildings, renewable energy, energy efficiency and the avoidance of GHG emissions.
Renewable Energy		
Energy Efficiency		

Evaluation and Selection of Eligible Loans

Not Aligned	Partially Aligned	Aligned	Best Practices

- 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 are 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 by the Issuer, for a majority of Eligible Categories.
- 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 18 - 20).

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.
    - Additionally for green projects: borrowers are required to outline their green categories' expenditures, such as nature of works, capex and timeframe, and need to demonstrate that an appropriate proportion of proceeds will be allocated to green projects.
    - 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. Borrowers qualifying for sustainable bond issuances will also be subjected to reporting yearly on the completion and impact of green projects annually. In case a green project is no longer eligible, the Issuer will work with the borrower to find an eligible green project as substitute, and as a last resort, require the borrower to repay the amount of the loan corresponding to the green project that is no longer eligible.
    - 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 environmental and 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 or the funds been used in a way not compliant with the criteria set forth in the framework.

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

Not Aligned	Partially Aligned	**Aligned**	Best Practices

- 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

Not Aligned	Partially Aligned	Aligned	Best Practices

- 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 environmental and social benefits of the Eligible Categories 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 environmental and social benefits of the Eligible Categories 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. ⇒ Amounts/share lent to green projects per borrower.

- Environmental and Social benefits: The indicators selected by the Issuer to report on the environmental and social benefits are clear and relevant. The Sustainable 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	ENVIRONMENTAL AND SOCIAL BENEFITS INDICATORS
Affordable Housing	Number of units constructed by tenure
Green Buildings	EPC ratings of constructed/retrofitted units
Renewable Energy	CO_2 emissions saved (tCO_2e)
Energy Efficiency	

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 environmental and social benefits at loan level.

⇒ The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Loans will be disclosed publicly.

Contribution to sustainability

Expected Impacts

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

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Affordable Housing	ADVANCED	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. 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.
Green Buildings	ADVANCED	Housing Associations are required to upgrade all the Housing Units to EPC rating C by 2030, following the UK's Clean Growth Strategy[8]. Currently, 60% of the stock is compliant with this target and an additional £30-60 bn are needed to improve the EPC ratings of the remaining 40%. In this respect, it is necessary to finance retrofitting, rather than Housing Associations selling low-EPC rated stocks to meet the 2030 target. Eligible loans are aiming to improve the Housing Association stock to EPC rating B or above, which goes beyond regulatory requirements.
Renewable Energy	ROBUST	According to the International Energy Agency, the share of UK electricity generated from fossil fuel sources (coal, oil, and natural gas) in 2019 is 43.62%[9]. The UK needs to cut carbon emissions by 78% to achieve its target of net zero by 2050[10]. Housing accounts for 18% of emissions, and social housing represents 17% of the housing stock[11], highlighting its relevance in improving the energy mix. Climate mitigation is expected to have both local and global positive effects. Eligible renewable energy projects are in line with the CBI screening criteria of 100g CO_2/kWh, representing the most stringent threshold for energy generation. However, the issuer has not specified feed sourcing requirements in case biomass is considered.

[8] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/700496/clean-growth-strategy-correction-april-2018.pdf
[9] https://www.iea.org/countries/united-kingdom
[10] THFC's Sustainable Bond Framework
[11] Ibid

Energy Efficiency	ROBUST	As highlighted in the "Green Buildings" category, improving energy efficiency and reducing GHG emissions is highly relevant in the housing sector. All energy efficiency measures are relevant, even if not representing a full retrofit. Improving energy efficiency by at least 30% is in line with market best practices, however as it only concerns the element being improved, the resulting impact can be small, depending on the overall share of energy consumption that this element represents in the building. In addition, although they are relevant elements for energy efficiency, it is not fully clear what would be included in energy storage, district heating, and smart grids.
OVERALL ASSESSMENT	ADVANCED	

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	GREEN BUILDINGS	RENEWABLE ENERGY	ENERGY EFFICIENCY
Environmental performance	X	X	X	X
Access to essential services and security for inhabitants	X	N/A	N/A	N/A
Responsible relations with clients	X	N/A	N/A	N/A
Business Ethics	X	X	X	X
OVERALL ASSESSMENT	Robust			

Environmental performance (Affordable Housing)

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 2030.

Environmental performance (green loans)

THFC has put in place a review process for loan approval, and continuously monitor and review the health of its borrowers to ensure regular compliance with the covenants in place. It has also included an environmental questionnaire as part of this process to assess, map and mitigate environmental risk arising from the activities undertaken by Housing Associations. THFC has declared in internal documentation that the Committee takes into consideration the information obtained through this risk questionnaire when assessing eligibility under the terms of the framework. The environmental risks included in the questionnaire are considered relevant and cover the main risks associated to the projects to be financed. However, V.E does not have visibility on the answers given by borrowers to this questionnaire.

To be approved by THFC, the responses to the questionnaire must at least meet the requirements of UK legislation. This will include compliance to Building Regulations that comprise guidance documents covering Part A: Structure, Part B: Fire safety, Part C: Site preparation and resistance to contaminates and moisture, Part D: Toxic substances, Part E: Resistance to sound, Part F: Ventilation, Part G: Sanitation, hot water safety and water efficiency, Part H: Drainage and waste disposal, Part J: Combustion appliances and fuel storage systems, Part K: Protection from falling, collision and impact, Part L: Conservation of fuel and power, Part M: Access to and use of buildings, Part P: Electrical safety, Part Q: Security in dwellings, and Part R: High speed electronic communications networks[12].

The requirements of Building Regulations are also in the midst of incorporating stringent energy efficiency standards[13], such as changes to Part L: Conservation of fuel and power and Part F: Ventilation of the Building Regulations. These changes provide impetus for the risk questionnaire of covering relevant material environmental risks.

Access to essential services and security for inhabitants

The Regulatory Framework for Housing Associations requires compliance with the Decent Homes Standards[14], 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[15], detailing the plan to strengthen the regulatory framework in this regard.

Responsible relations with clients

Rules on tenancy are established in the Tenancy Standards[16]. 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.

[12] https://www.gov.uk/government/collections/approved-documents

[13] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/956037/Future_Buildings_Standard_consultation_document.pdf

[14] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/7812/138355.pdf

[15] https://www.gov.uk/government/publications/the-charter-for-social-housing-residents-social-housing-white-paper

[16] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/914616/Tenancy_Standard_2015.pdf

The 'Tenant involvement and Empowerment Standards"[17] 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.

[17] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/914637/Tenant_Involvement_and_Empowerment_Standard.pdf

ISSUER

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

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.

ISSUANCE

Alignment with the Green and 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 Green Bond Principles ("GBP") and Social Bond Principles ("SBP") – both edited in June 2021 – 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 Green and 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 and social objectives, as well the management of the associated potential negative impacts and externalities.

Expected positive impact of the activities on environmental and social objectives

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

i) the relevance of the activity to respond to an important environmental and/or 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 environmental 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	
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.
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.
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.
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.

Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
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.
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.
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.
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.

Statement on V.E' s independence and conflict-of-interest policy

Transparency on the relation between V.E and the Issuer/Borrower: V.E has carried out one audit mission or consultancy activity for THFC. No established relation (financial or commercial) exists between V.E and THFC. V.E's conflict of interest policy is covered by its Code of Conduct, which can be found at http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond/Loan, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer/Borrower's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer/Borrower. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer/Borrower. The Issuer/Borrower is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond/Loan, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction. Restriction on distribution and use of this opinion: The deliverables remain the property of V.E. The draft version of the Second Party Opinion by V.E is for information purpose only and shall not be disclosed by the client. V.E grants the Issuer/Borrower all rights to use the final version of the Second Party Opinion delivered for external use via any media that the Issuer/Borrower shall determine in a worldwide perimeter. The Issuer/Borrower has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned bond/loan(s) issuance. The Issuer acknowledges and agrees that V.E reserves the right to publish the final version of the Second Party Opinion on V.E' website and on V.E' internal and external communication supporting documents.

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V.E provides its customers with data, information, research, analyses, reports, quantitative model-based scores, assessments and/or other opinions (collectively, "Research") with respect to the environmental, social and/or governance ("ESG") attributes and/or performance of individual issuers or with respect to sectors, activities, regions, stakeholders, states or specific themes.

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