

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Bond Framework

Beyond Housing
4 May 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Sustainability Bonds
Relevant standards	<ul style="list-style-type: none">• Green Bond Principles (GBPs) and Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs) administered by the International Capital Market Association (ICMA).
Scope of verification	<ul style="list-style-type: none">• Beyond Housing's Sustainable Bond Framework• Eligible project categories' selection criteria
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as no new project category is added to the framework

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Scope of work

Beyond Housing (or “the Issuer”) commissioned ISS ESG to assist with its Sustainable Bond Framework by assessing three core elements to determine the sustainability quality of the instrument:

1. The Framework’s link to Beyond Housing’s sustainability strategy – drawing on Beyond Housing’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Beyond Housing’s Sustainable Bond Framework (May 2021 version) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBPs), Social Bond Principles (SBPs) and Sustainability Bond Guidelines (SBGs).
3. The eligible project categories – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 1).

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Framework’s link to issuer’s sustainability strategy	<p>Beyond Housing is a provider of affordable housing regulated by the UK Regulator of Social Housing. The group’s principal activity is the provision and management of housing and associated services (e.g. home adaptations, independent living and income and employment advice)</p> <p>The Use of Proceeds financed through this bond are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Sustainability bonds is clearly described by the issuer.</p>	Consistent with issuer’s sustainability strategy
Part 2: Alignment with GBPs, SBPs and SBGs	<p>The issuer has defined a formal concept for its Sustainability Bonds regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA GBPs, SBPs and SBGs.</p>	Aligned
Part 3: Sustainability quality of the Sustainable Bond Framework	<p>The overall sustainability quality of the Sustainable Bond Framework in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Sustainability Bonds will (re-)finance eligible asset categories which include green buildings and affordable housing in the United Kingdom.</p> <p>These use of proceeds categories have a positive contribution to SDG 1 ‘No poverty’, SDG 11 ‘Sustainable cities and communities’ and SDG 13 ‘Climate action’. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	Positive

¹ ISS ESG’s evaluation is based on the Beyond Housing’s Sustainable Bond Framework (May 2021 version), eligible project categories selection criteria and on the ISS ESG Indicative Corporate Rating applicable at the SPO delivery date.

ISS ESG SPO ASSESSMENT

PART I: FRAMEWORK'S LINK TO BEYOND HOUSING'S SUSTAINABILITY STRATEGY

A. BEYOND HOUSING'S INDICATIVE SUSTAINABILITY PROFILE

Methodological note: Please note that Beyond Housing is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment conducted by the analyst in charge of the Real Estate sector based on publicly available information exclusively. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

Industry classification: Real Estate²

Key Issues of the industry:

1. Green building considerations
2. Climate protection, energy efficiency and renewables
3. Environmental and social aspects in site selection
4. Worker safety and accident prevention
5. Health and well-being of occupants

Indicative ESG risk and performance assessment:

Beyond Housing is a provider of affordable housing regulated by the UK Regulator of Social Housing. The group's principal activity is the provision and management of affordable housing and associated services (e.g., home adaptations, independent living and income and employment advice). The company's property portfolio includes 15,000 homes in the Tees Valley and North Yorkshire, UK. Beyond Housing generates a major share of revenues from the management and letting of social housing for people who are unable to afford to rent from a private landlord.

Beyond Housing recognizes that buildings account for a comparably large share of man-made CO2 emissions and is committed to reduce its CO2 emissions from own operations (at least by 20% from 2020 to 2025). The target does not include scope 3 emissions, such as the ones deriving from downstream-leased assets. Beyond Housing's inventories are otherwise comprehensive. Efforts to reduce CO2 emissions and to make its property portfolio more energy efficient include, among others, more efficient heating systems, insulation and damp proofing. Beyond Housing also plans that half of its newly built homes will be carbon neutral by 2025.

The company also provides details regarding further aspects relevant for a real estate company also active in development and construction of buildings (e.g., environmental and social aspects of site selection, green procurement of building materials).

² As per ISS ESG industry classification.

Occupational health and safety of Beyond Housing's employees is covered by a formal health and safety policy which provides details on e.g., responsibilities and monitoring of health and safety performance. Statistics on accident data are reported to every Board meeting and an annual report is produced. Employee and tenant safety is further addressed by a fire safety policy that details fire safety management arrangements that need to be established at Beyond Housing's own premises and managed properties. As part of its Strategic Asset Management Plan, the company also plans to produce a digital handbook covering relevant building safety aspects for all residents. On its website, the company informs tenants on health exposures at home and how to deal with them (e.g., asbestos, legionella). Health and safety aspects affecting contractors and suppliers are also properly addressed by Beyond Housing.

Indicative product portfolio assessment:

- **Social impact of the product portfolio:** The company generates a major share of revenues from the management and letting of social and/or affordable housing (details of rent setting provided) for people who are unable to afford to rent from a private landlord. The share of revenues from social housing activities was estimated to be 92% (based on turnover), providing substantial positive impacts on the achievement of the social objective to provide basic services. A limited share of turnover comprises non-social activities.
- **Environmental impact of the product portfolio:** There are no indications that any of the company's properties are certified to a sustainability label. Yet, 78% of Beyond Housing's existing stock is rated with an Energy Performance Certificate (EPC) level of C or above.

Controversy risk assessment: Based on a review of controversies in the period of 1 January 2019 – 26 March 2021, the greatest risk reported against companies operating in the Real Estate and House Financing industry relate to activities that may have adverse impacts on human rights and business malpractice. This is closely followed by the failure to respect labour rights. The top three issues that have been reported against companies within the industry are as follows: alleged to prevent bribery, failure to prevent money laundering and failure to respect the right to safe and healthy working conditions. This is closely followed by the alleged failure to respect the right to just and favourable conditions of work, failure to respect consumer health and safety and failure to respect the right not to be subjected to torture / inhumane treatment.

The analyst in charge of producing this report, conducted a high-level controversy assessment on the company, which did not reveal any controversy that can be attributed to the issuer.

B. CONSISTENCY OF THE SUSTAINABLE BOND FRAMEWORK WITH BEYOND HOUSING'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

Beyond Housing Strategy 2020-2025 includes various objectives focused at achieving positive environmental and social impacts. The Issuer has implemented a number of social initiatives aimed at reducing homelessness, regenerating neighborhoods and accommodating vulnerable population. As for the environmental performance, Beyond Housing aims to achieve EPC C or above on 95% of its stock by 2025 and aims to meet government targets of 100% EPC C or above by 2030. Currently, circa 78% of its housing stock has achieved an energy efficiency rating of EPC C or above. Beyond Housing also states that from 2023 onwards, all new homes are designated to be 100% EPC A and all new homes will be ‘off gas’ by 2025. In order to support the Government’s aim to achieve carbon neutrality by 2050, 50% of new homes Beyond Housing builds should be carbon neutral by 2023.

The organization also aims at reducing the carbon impact of its business operations by 20% to no more than 1,132 tCO₂e. As at 2019-20, the organisation’s net business emissions were equivalent to 1,414 tCO₂e.

Rationale for issuance

The establishment of this Sustainable Bond Framework aligns Beyond Housing’s strategic sustainability objectives with its funding and financial strategy. Beyond Housing has selected a number of eligible areas which are fundamental elements of the business model and deliver the most positive societal and environmental impacts.

Beyond Housing seeks to attract investors which are supportive of its objectives and continues to focus on enlarging its Sustainable Bond investor base. These stakeholders will support its contributions to a more just and sustainable society.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this Sustainable Bond Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Real Estate sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Affordable Housing	✓	✓	Contribution to a material objective
Green Buildings	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this framework are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Sustainability bonds is clearly described by the issuer.*

PART II: FRAMEWORK ALIGNMENT WITH THE GBPs, SBPs, and SBGs

1. Use of Proceeds

An amount equivalent to the net proceeds raised under this Sustainable Bond Framework will be used to finance and/or refinance in whole or in part new or existing Eligible Projects in the below categories, subject to the ICMA principles. Dependent on the nature of the project, the investment in the Eligible Projects can be measured through asset value, capital expenditure (“Capex”) or operating expenditure (“Opex”).

ELIGIBLE CATEGORY	ELIGIBILITY CRITERIA
Affordable Housing	<ul style="list-style-type: none"> • Construction of new Social and Affordable Housing in the United Kingdom (Capex) • Re-financing of existing Social and Affordable Housing in the United Kingdom (Asset value)
Green Buildings	<ul style="list-style-type: none"> • Construction of new homes with an EPC (Energy Performance Certificate) Rating of B or above (Capex) • Re-financing of existing homes – subject to a minimum EPC rating of B or above (Asset value) • Renovation of existing homes that improve unit EPC ratings by two notches (Opex & capex)

For capital or operating expenditures, a look-back period of up to 36 months prior to the time of debt issuance and a look forward period of 12 months after the issuance date will be applied.

Opinion: ISS ESG considers the Use of Proceeds description provided by Beyond Housing’s Sustainable Bond Framework as aligned with the GBPs, SBPs, and SBGs. Environmental and social benefits are described and quantified. While it is not mandatory to mention the expected lookback period, this definition aligns with market best practices.

2. Process for Project Evaluation and Selection

All potential Eligible Projects comply with the applicable environmental and social laws and regulations as well as the internal policies and standards of Beyond Housing, which aim to manage and mitigate ethical, environmental and governance risks.

Overall accountability for the Sustainable Bond Framework lies with Beyond Housing’s Board, which consists of 11 members with experience spanning across Healthcare, Real Estate, IT & Media, and Utilities, among others.

The Board oversees the implementation and execution of the framework, including;

- Ensuring the framework reflects the strategy and remains in alignment with the ICMA market standards

- Approve the addition of Eligible Projects if applicable
- Exclude assets that no longer comply with the eligibility criteria or have been disposed of and replacing them on a best-efforts basis
- Oversee preparation of allocation and impact reporting

Opinion: ISS ESG considers the Process for Project Evaluation and Selection description provided by Beyond Housing's Sustainable Bond Framework as aligned with the GBPs, SBPs, and SBGs. The process for selection and evaluation includes various relevant stakeholders, in line with best market practices. Moreover, Beyond Housing set a documented process to identify and manage potential ESG risks associated with the project.

3. Management of Proceeds

Beyond Housing intends to allocate an amount equal to the net proceeds from its Sustainable debt instruments to Eligible Projects, selected in accordance with the eligibility criteria and project evaluation and selection process.

In alignment with ICMA principles, Beyond Housing's Board will ensure that Eligible Projects financed, at all times exceed net proceeds raised under the Sustainable Bond Framework, for as long as the financing remains in place. If an asset is no longer eligible under the criteria mentioned above, it will be removed from the Eligible Asset portfolio. In such a scenario, Beyond Housing will strive to replace the asset with another Eligible Asset as soon as reasonably practicable, and no later than a year following removal of the ineligible project.

Pending the full allocation to Eligible Projects, Beyond Housing is permitted to use any unallocated funds for either debt repayment and/or other transactions in line with its treasury policy - which can include deposits, money market funds and other similar products, prioritising ESG-aligned products where possible. Beyond Housing's finance team will take principal responsibility for managing this process.

Opinion: ISS ESG finds that Management of Proceeds proposed by Beyond Housing's Sustainable Bond Framework is well aligned with the GBPs, SBPs, and SBGs. An amount at least equal to the net proceeds will be allocated to eligible projects. The intended types of investment in case of unallocated proceeds are disclosed within a year, in line with best market practices.

4. Reporting

Beyond Housing will publish an allocation report and an impact report on its Sustainable Bond(s) issued, as detailed below.

The Beyond Housing Sustainable Bond Allocation Report will be updated annually until the full allocation of the net proceeds of any Sustainable Bond(s) issued, or until the Beyond Housing Sustainable Bond(s) is no longer outstanding, whichever is earlier. The reporting will include:

- A description of the portfolio of Eligible Projects including a breakdown of the allocated amounts by sector and geography where appropriate;
- Outstanding amounts of the financing instrument(s);
- Any further information on how unallocated proceeds have been held

Where feasible, Beyond Housing will share the progress and positive impact delivered with the Sustainable Bond Framework in its Sustainable Bond Allocation Report. Beyond Housing will report on the impact metrics (KPIs) and targets, and quantitatively measure the progress made against them where possible.

Examples of the relevant KPIs could include below:

ICMA CATEGORY	DESCRIPTION	INDICATIVE IMPACT METRICS
Affordable Housing	<ul style="list-style-type: none"> • Construction of new Social and Affordable Housing in the United Kingdom 	<ul style="list-style-type: none"> • Number of new affordable properties by category and average rents charged relative to private sector rents
	<ul style="list-style-type: none"> • Re-financing of eligible existing Social and Affordable Housing in the United Kingdom 	<ul style="list-style-type: none"> • Existing number of affordable properties by category and average rents charged relative to private sector rents
Green Buildings	<ul style="list-style-type: none"> • Construction of new homes with an EPC (Energy Performance Certificate) Rating of A or B 	<ul style="list-style-type: none"> • % of new homes with an EPC Rating of A or B
	<ul style="list-style-type: none"> • Renovation of existing homes that improve unit EPC ratings by two bands and meet carbon neutrality 	<ul style="list-style-type: none"> • Change in distribution of EPC ratings of existing homes
	<ul style="list-style-type: none"> • Re-financing of existing homes – subject to a minimum EPC rating of A or B 	<ul style="list-style-type: none"> • Number of existing homes with an EPC rating of A or B

Opinion: ISS ESG finds that the reporting proposed by Beyond Housing’s Sustainable Bond Framework is aligned with the GBPs, SBPs, and SBGs. Beyond Housing shows transparency on the type, scope and frequency of information that it will report, as well as on the duration. Moreover, the Issuer includes information on the level of impact reporting and indicators, following best market practices.

External review

External verification of the tracking of the bond proceeds will be provided by an external auditor appointed by Beyond Housing, that will review and provide an opinion on all allocation reports produced in line with Beyond Housing Framework. The review will be included in the Sustainable Bond Allocation Report.

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE SUSTAINABILITY BONDS TO THE UN SDGs

Based on the assessment of the sustainability quality of the Sustainable Bond Framework’s Asset Pool and using a proprietary methodology, ISS ESG assessed the contribution of the Beyond Housing’s Sustainability Bonds to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Sustainability Bonds’ Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Affordable housing	Significant Contribution	
Green buildings	Significant contribution³	
	Limited Contribution	

³ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer’s product and service portfolio on the SDGs. For the projects to be financed under the Use of Proceeds category “Green Buildings” that comply with the Technical Screening Criteria defined by the EU Taxonomy Technical Annex, a significant contribution to climate change mitigation is attested.

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBLE USE OF PROCEEDS CATEGORIES

Eligible categories include affordable housing and green buildings. The table below presents the findings of an ISS ESG assessment of the selection criteria against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Energy efficiency prerequisites for Green Buildings

- ✓ 100% of assets underwent an appropriate and detailed selection process that ensures good standards regarding energy efficiency. All new building homes are located in the United Kingdom and received an EPC Rating of A or B.

Standards for Affordable Housing

- ✓ Rent levels are aligned to the Beyond Housing Rent Policy, consistent with national regulation. Homes let on affordable rent terms should be made available at a rent level of up to 78% of gross market rent for an equivalent property of that size and location (inclusive of service charges where applicable).

Site selection

- ✓ 100% of assets have been developed in urban areas excluding protected areas and sites of high environmental value.
- ✓ 95% of the assets are located within 1 km from one or more modalities of public transport.

Construction standards

- ✓ 100% of assets are located in the United Kingdom where high labour and health and safety standards are in place (e.g. ILO core conventions).
- ✓ 100% of assets provide for sustainable procurement regarding building materials (e.g. recycled materials, third-party certification of wood-based materials).

Safety of building users

- ✓ Assets to be financed under this Framework ensure good measures for the safety of users, based on internal policies and national legislation.

Water use minimization for Green Buildings

- ✓ 100% of assets provide for measures to reduce water consumption (e.g. water metering, high-efficiency fixtures and fittings) as provided by national legislation.

Sustainability labels for Green Buildings

- No information is available with regards to the assets that obtained a BREEAM (or an equivalent) certification "Very good". Yet, 78% of Beyond Housing's existing stock has a "C or above" EPC label.

DISCLAIMER

1. Validity of the SPO: As long as no new project category is added to the framework
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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ANNEX 1: Methodology

ISS ESG Green and Social KPIs

The ISS ESG Green and Social Bonds KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Beyond Housing’s Green and Social Bonds.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green and Social Bonds KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green and Social Bonds KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Beyond Housing (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Beyond Housing’s Green and Social Bonds contributes to related SDGs.

ANNEX 2: Quality management processes

SCOPE

Beyond Housing commissioned ISS ESG to compile a Sustainable Bond Framework SPO. The Second Party Opinion process includes verifying whether the Sustainable Bond Framework aligns with the ICMA GBPs, SBPs, and SBGs, to assess the sustainability credentials of its Green and Social Bonds, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA GBPs, SBPs, and SBGs
- ISS ESG KPI set: - Green buildings and Affordable Housing
- Other relevant KPI

ISSUER'S RESPONSIBILITY

Beyond Housing's responsibility was to provide information and documentation on:

- Framework
- Asset pool / Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainable Bond Framework be issued by Beyond Housing based on ISS ESG methodology and in line with the ICMA GBPs, SBPs, and SBGs.

The engagement with Beyond Housing took place in March 2021.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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