

REPORT REVIEW

Southern Housing Sustainability Bond Report

Allocation and Impact Report Southern Housing

28 September 2023

VERIFICATION PARAMETERS

Type(s) of reporting	<ul style="list-style-type: none">Allocation and Impact Report
Relevant standard(s)	<ul style="list-style-type: none">Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB), as administered by ICMA (as of June 2022)Southern Housing's Allocation and Impact Report (as of September 6, 2023)
Scope of verification	<ul style="list-style-type: none">Southern Housing Group's Sustainable Finance Framework (as of September 2021)Bond(s) identification: XS239324826, bond maturity October 8, 2036, and bond issuance amount £300m.
Lifecycle	<ul style="list-style-type: none">Post-issuance verification
Validity	<ul style="list-style-type: none">As long as no changes are undertaken by the Issuer to its Allocation and Impact Report as of September 6, 2023

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SCOPE OF WORK

Southern Housing (“the Issuer”) commissioned ISS Corporate Solutions (ICS) to provide a Report Review¹ on its Allocation and Impact Report by assessing:

1. The alignment of the Southern Housing’s Allocation and Impact Report with the commitments set forth in Southern Housing Sustainable Finance Framework (as of September 28, 2023)².
2. Southern Housing’s Allocation and Impact Report- benchmarked against Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB), updated as of as June 2022.
3. The disclosure of proceeds allocation and soundness of reporting indicators– whether the impact metrics align with best market practices and are relevant to the Sustainable Bond issued.

¹ A limited or reasonable assurance is not provided on the information presented in Southern Housing’s Allocation and Impact Report. A review of the use of proceeds’ allocation and impact reporting is solely conducted against ICMA’s Standards ICMA Standards (Green Bond and Social Bond Principles, Sustainability Bond Guidelines) core principles and recommendations where applicable, and the criteria outlined in the underlying Framework. The assessment is solely based on the information provided in the allocation and impact reporting. The Issuer is responsible for the preparation of the report including the application of methods and internal control procedures designed to ensure that the subject matter information is free from material misstatement.

² The Framework was assessed as aligned with the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines as of September 20, 2022.

ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION
<p>Part 1.</p> <p>Alignment with the Issuer's commitments set forth in the Framework</p>	<p>The Southern Housing's Allocation and Impact Report meets the Issuer's commitments set forth in the Sustainable Finance Framework. The proceeds have been used to finance Affordable Housing in accordance with the eligibility criteria defined in the Framework.</p>	<p>Aligned</p>
<p>Part 2</p> <p>Alignment with the HFIRSB</p>	<p>The Allocation and Impact Report is in line with ICMA's Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB). The Issuer follows core principles and where applicable key recommendations.</p> <p>The Issuer provides transparency on the level of reporting as well as on the frequency, scope, and duration. The Issuer reports within one year from issuance and illustrates the social impacts transparently. The Issuer discloses the total amount of proceeds allocated to eligible categories, per type of property and location.</p>	<p>Aligned</p>
<p>Part 3</p> <p>Disclosure of proceeds allocation and soundness of reporting indicators</p>	<p>The allocation of the bond's proceeds has been disclosed, with a detailed breakdown of the eligible project category as proposed in the Framework³.</p> <p>The Southern Housing's Allocation and Impact Report has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculations methodologies, and granularity reflecting best market practices.</p>	<p>Positive</p>

³ The assessment is based on the information provided in the Issuer's report. The Issuer is responsible for the preparation of the report including the application of methods and procedures designed to ensure that the subject matter information is free from material misstatement.

REPORT REVIEW ASSESSMENT

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE SUSTAINABLE FINANCE FRAMEWORK

The following table evaluates the Allocation and Impact Report against the commitments set forth in Southern Housing’s Framework, which are based on the core requirements of the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines as well as best market practices.

SBP	OPINION	ALIGNMENT WITH COMMITMENT
1. Use of Proceeds	<p>Southern Housing confirms to follow the Use of Proceeds’ description provided by Southern Housing’s Sustainable Finance Framework. The report is in line with the initial commitments set in the Southern Housing’s Sustainable Finance Framework: to finance Eligible Projects in Affordable Housing.</p> <p>The Issuer’s social category align with the project categories and are in accordance with the eligibility criteria set in the Southern Housing’s Sustainable Finance Framework. Social benefits at either category level are described and quantified.</p> <p>The Issuer confirms that all projects financed are newly built.</p>	✓
2. Process for Project Evaluation and Selection	<p>Southern Housing confirms to follow the Process for Project Evaluation and Selection description provided by Southern Housing’s Sustainable Finance Framework. The report is in line with the initial commitments set in Southern Housing’s Sustainable Finance Framework: to engage with the Sustainable Finance Group (SF Group) during the evaluation and selection process.</p> <p>The projects selected were defined and structured in a congruous manner and ESG risks associated with the project categories are identified and managed through an appropriate process. The Issuer ensures compliance with the Eligibility Criteria.</p> <p>The Issuer confirms that various stakeholders were involved in the project evaluation and selection process, including internal and external expertise, in line with good market practices.</p>	✓

<p>3. Management of Proceeds</p>	<p>Southern Housing confirms to follow the Process for Management of Proceeds description provided by Southern Housing’s Sustainable Finance Framework. The report is in line with the initial commitments set in the Southern Housing’s Sustainable Finance Framework: to allocate an amount equal to the net proceeds of the Sustainability Bond to Eligible Projects and tracked using an internal tracking system.</p> <p>Southern Housing issued £245.6m of debt in 2021 and allocated £146.1m. In 2023, Southern Housing issued £33.8m, in addition to the remaining £103.9m, accounting for £133.3m net proceeds. The proceeds were fully allocated to eligible projects as of June 2023. The £279.4m proceeds collected are equal to the amount allocated to eligible projects, with no exceptions.</p>	<p>✓</p>
<p>4. Reporting</p>	<p>The Southern Housing Impact Report is coherent with the Reporting description provided by Southern Housing’s Sustainable Finance Framework. The report is in line with the initial commitments set in Southern Housing’s Sustainable Finance Framework: to publish an Allocation Report and an Impact Report at least every 12 months post-issuance ahead of full allocation.</p> <p>The sections “Allocation reporting” and “Impact Reporting” of the Allocation and Impact Report comply with the pre-issuance commitment expressed in the Framework. The report is intended to be publicly available.</p> <p><i>Further analysis of this section is available in Part III of this report.</i></p>	<p>✓</p>
<p>5. Verification</p>	<p>Southern Housing’s Sustainable Finance Framework has received a Second Party Opinion (SPO) on September 27, 2021.</p>	

PART II: ASSESSMENT AGAINST THE ICMA HARMONISED FRAMEWORK FOR IMPACT REPORTING FOR SOCIAL BONDS

FOR SOCIAL BONDS

Reporting is a core component of the SBP, and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of an annual reporting. Sustainability bond Issuers are required to report on both the use of social bond proceeds, as well as the social impacts at least on an annual basis until full allocation. ICMA Harmonised Framework for Impact Reporting for Social Bonds has been chosen as a benchmark for this analysis as it represents the most widely adopted standard.

The table below evaluates Southern Housing Allocation and Impact Report against ICMA Harmonised Framework for Impact Reporting for Social Bonds.

CORE PRINCIPLES		
ICMA HFIRSB	Allocation and Impact Report	ASSESSMENT
Reporting on an annual basis	Southern Housing has reported within one year from issuance and all the proceeds have been fully allocated. The report will be available on Southern Housing's website.	✓
Formal internal process to track proceeds	The Southern Housing confirms project selection and management of proceeds to be in line with the criteria set forth in the underlying Framework.	✓
Allocation of the proceeds to social project categories	In accordance with the criteria established within the Framework, and in compliance with the Social Bond Principles issued by the ICMA, Southern Housing has allocated the net proceeds of the bond issued under this Framework to new eligible assets within the Affordable Housing category, with tenures that include Affordable Rent, Shared Ownership, and Social Rent.	✓
Target Population(s) identified	The Issuer defined the targeted population for Affordable Housing by referring to local authorities' definition of income thresholds per area to assess eligibility purposes.	✓
Output, outcome, and/or impact of projects at project or portfolio level	The Issuer referred to existing indicator lists and catalogs from the Annex III of the HFIRSB: the number of delivered affordable housing units, allocation per social housing tenure, average rent level measured against the private market, and amount spend on schemes delivered and schemes in which progress is made.	✓

	A detailed analysis of impact indicators is available in Part III of this report.	
Illustrating of the social impacts	<p>The assessment and measurement of the impacts generated by Southern Housing Social Bonds covered the following areas:</p> <ul style="list-style-type: none"> ▪ Number of affordable units delivered: 507 units. ▪ Overall weighted average rent against the average of the local private market: 62% (with a maximum of 80%). 	✓
Pro-rated share of the overall impact results of the projects or portfolio of projects	The Issuer confirms that the Affordable Housing projects are 100% eligible.	✓

RECOMMENDATIONS

ICMA HFIRSB	Allocation and Impact Report	ASSESSMENT
Disclose the methodology and the assumptions used for the calculation of impact indicators	The Issuer reports on actual absolute output indicators and quantitative relative impact indicators. The Issuer confirms regularly tracking these indicators against targets using a tool known as a results measurement plan.	✓
When the expected impacts of different project components may not be reported separately, Issuers may use (and disclose) the attribution approach	The impact of Southern Housing's projects is reported separately per project and aggregated.	✓
Disclose the methodology used to determine the share of eligible project financing being applied to impact calculation	The Issuer determines the affordability of housing units by using assessments of the private rent levels of comparable properties conducted by professional third-party valuation and setting their own rent levels to be at a maximum of 80% ⁴ of those private rent levels.	✓
Collaborating with experts if reporting on the estimated	The Issuer confirms collaborating with experts for the valuation of schemes and to determine the combination of affordable tenures and private rent for sale.	✓

⁴ In accordance with the National Planning Policy Framework.

lifetime impacts and/or project economic life in years.		
Assumptions and ex-post verification	The Issuer reports on actuals not using assumptions or projection estimates.	✓
Report Period	The Issuer reports transparently on added projects to the portfolio reporting on actuals as for the period between the issuance date of August 2023 and September 2023.	✓
Disbursement reporting	The proceeds from the social bond issuance were used to finance new projects in the Affordable Housing category. The Issuer reports on the amounts allocated in June 2023.	✓
Projects with partial eligibility	Some projects have partial eligibility but the Issuer confirms to only allocate proceeds to the portion of the total projects that is eligible within the report.	✓

OPINION

The Southern Housing follows the ICMA Harmonised Framework for Impact Reporting for Social Bonds' core principles and key recommendations. The Issuer provides transparency on the level of expected reporting as well as on the frequency, scope, and duration, aligned with best market practices. Southern Housing has reported within one year from issuance and illustrates the social impacts transparently. The Issuer has confirmed that all proceeds from the issuance have been allocated. Moreover, the Issuer discloses the total amount of proceeds allocated to eligible categories, per project and the average rent level measured against the private market.

PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS

Use of Proceeds Allocation

Use of Proceeds allocation reporting is key to put the impacts into perspective with the number of investments allocated to the respective Use of Proceeds' categories. This report refers to the Sustainability Bond issued by Southern Housing Group in August 2023 for a net collected amount of £133.3m.

The Use of Proceeds' first allocation reporting occurred within one year from the issuance, in September 2022, after 59% allocation of the proceeds.

This is the second year of allocation reporting and 100% of the proceeds has been allocated in 2023. The Use of Proceeds allocation reporting occurred within the regular annual cycle from the issuance.

Proceeds allocated to eligible projects/assets

The proceeds allocation is broken down at the project category level. The report details the amount of proceeds allocated to new eligible projects delivered according to the Issuer's framework and the amount of proceeds allocated to future house units. The Issuer has provided details about the type of projects included in the portfolio.

It is noted that no projects were removed from the allocation register, however, some projects with partial eligibility have changed in terms of the mix of housing, leading to changes in proceeds allocated to each project to only finance the portion of the total project that is eligible.

The allocation report section of the Allocation and Impact Report of Southern Housing aligns with best-market practices by providing information on:

- The number of new Affordable Homes provided by the Issuer during the reporting period, broken down by individual project and type of housing scheme.
- The average affordable rent on affordable units delivered against the local private rent market, broken down by individual project.

Impact Reporting Indicators

The table below presents an independent assessment of the Issuer’s report and disclosure on the output, outcome, and/or impact of projects/assets using impact indicators.

ELEMENT	ASSESSMENT
Relevance	<p>The impact indicators chosen by the Issuer are the following:</p> <ul style="list-style-type: none"> a) Number of new affordable houses b) Average affordable rent on affordable units delivered against the local private rent market, broken down by individual project. <p>These indicators are quantitative, and material to the Use of Proceeds categories financed through this bond and in line with the Suggested Impact Reporting metrics for Affordable Housing projects by the ICMA Harmonized Framework for Impact Reporting for Social Bonds. This aligns with best market practices.</p>
Data sourcing and methodologies of quantitative assessment	<p>For its impact indicator(s), the Issuer uses:</p> <ul style="list-style-type: none"> ▪ The number of new affordable houses. The data is sourced internally. ▪ The average affordable rent on affordable units delivered against the local private rent market, broken down by individual project. The data is sourced internally based on a third-party valuation that defines the local private rent market. <p>These indicators are in line with the core indicators proposed by the ICMA Harmonized Framework for Impact Reporting for Social Bonds.</p>
Baseline selection	<p>The impact data is determined by comparing the average local private rent as defined by a professional third-party valuation and the average rent of the units delivered under the Sustainability Bond.</p>
Scale and granularity	<p>The impact data is presented at the project level for the indicators.</p>

High-level mapping of the impact indicators with the UN Sustainable Development Goals

Based on the project categories financed and refinanced by the bonds as disclosed in the Issuer’s Allocation and Impact Report, the impact indicator(s) adopted by Southern Housing for its Sustainability Bonds can be mapped to the following SDGs, according to the ICMA “A High -Level Mapping to the Sustainable Development Goals”⁵.

⁵ [ICMA’s Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds](#)

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<p>Number of new affordable houses.</p>	 
<p>Average affordable rent on affordable units delivered against the local private rent market, broken down by individual project.</p>	 

OPINION

The allocation of the bond’s proceeds has been disclosed, with a detailed breakdown across different eligible project categories/asset categories as proposed in the Framework, and the Southern Housing’s Sustainable Finance Framework has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculations methodologies, and granularity reflecting best market practices. Besides, the impact indicators used align with best market practices using ICMA’s recommended metrics in the HFIRSB.

DISCLAIMER

1. Validity of the External Review (“External Review”): Valid as long as the cited Framework remains unchanged.
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another entity controlled by DB, with General Atlantic to become the sole minority shareholder of the combined entity. The combination is expected to be completed in the third quarter of 2023. In July 2023, the stakes of Genstar and ISS management in ISS HoldCo Inc. were acquired by DB. The non-interference and similar policies implemented by ISS related to Genstar are no longer applicable and disclosures regarding Genstar and ISS management’s ownership of ISS are withdrawn.

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ANNEX 1: Methodology

Review of the post-issuance Reports

The ISS ESG Report Review provides an assessment of labelled transactions reporting against international standards using ISS ESG proprietary methodology. For more information, please visit: <https://www.issgovernance.com/file/publications/SPO-Report-Reviews.pdf>

High-level mapping 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 based on ICMA's Green, Social, and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, the extent to which the Issuers reporting and project categories contribute to related SDGs is identified.

ANNEX 2: Quality management processes

ISSUER'S RESPONSIBILITY

Issuer's responsibility was to provide information and documentation on:

- Allocation and Impact Report
- Southern Housing's Sustainable Finance Framework
- Proceeds Allocation
- Reporting Impact Indicators
- Methodologies, and assumptions for data gathering and calculation.
- ESG Risk Management

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.

This independent Report Review has been conducted by following the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews, and its methodology, considering, when relevant, the ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The engagement with Southern Housing took place in September 2023.

ISS' 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 behavior 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 this Report Review

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

We assess alignment with external principles (e.g. the ICMA Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines), analyze the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent Report Review 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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