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Use of Proceeds

Flagship Finance Plc - 2061 Bond

For the Period to 31 March 2022

1. Introduction

- 1.1 Flagship Group is the East of England’s largest affordable housing provider with over 32,000 homes, working across 20 Local Authorities.
- 1.2 Our vision is to Solve the Housing Crisis in the East of England and our purpose is to Provide Homes and Create Sustainable Communities.
- 1.3 Our Environmental, Social and Governance (ESG)¹ report provides us the opportunity to showcase the positive impact of our work. We have an ambitious programme to deliver c.4,000 affordable homes over the next five years and we want to build them to high environmental standards. We know that a decent safe home has a positive impact on our tenant’s quality of life. We are committed to tackling the environmental agenda and we plan to retrofit c.2,000 of our existing homes every year through a fabric-first programme focusing on thermal improvements, digital heating controls and installing renewable heating technology.
- 1.4 In June 2021 we published our Sustainable Finance Framework (SFF)². In July 2021 We issued a £250m Public Bond in accordance with the SFF. £150m was drawn in July 2021 and a further £50m drawn in January 2022.
- 1.5 Set out below is a summary of how the proceeds from the bond have been allocated.
- 1.6 Unallocated proceeds are held as cash deposits in line with our treasury management policy.

¹ <https://www.flagship-group.co.uk/media/2s2pbjo2/flagship-group-esg-report-lr.pdf>

² <https://www.flagship-group.co.uk/media/1madboq4/flagship-group-sustainable-finance-framework.pdf>

2 Use of Proceeds

Use of Proceeds	ICMA Category	Projects	Type of Eligible Expenditure	FY 21 £m (Refinanced)	FY 22 £m	FY 23 £m	Total £m
Social	Affordable Housing	Construction of new Social and Affordable homes in the U.K.	Capital Expenditure	65.0	81.0	-	146.0
		Prevent, reduce and alleviate homelessness through our Hopstead charitable initiative	Operating Expenditure	-	0.6	-	0.6
Environmental	Renewable Energy	Projects aimed at integrating renewables into the energy system for buildings	Capital Expenditure	-	5.7	-	5.7
Total				65.0	87.3	-	152.3
Proceeds	Sustainable Finance Instrument	Date					
	Flagship Finance Plc 2061 Bond	Jul-21		-	150.0	-	150.0
		Jan-22		-	50.0	-	50.0
Total				-	200.0	-	200.0
Unallocated Drawn Proceeds							
	Flagship Finance Plc 2061 Bond						47.7
Unallocated Undrawn Proceeds							
	Flagship Finance Plc 2061 Bond						50.0

3. Impact Reporting

3.1 Construction of New Social & Affordable Homes in the UK

The below table summarises Flagship Housing Groups activities in the construction of new Social and Affordable homes.

	Year ended 31 March 2021	Year Ended 31 March 2022
New affordable homes completed	460	564
New affordable homes in construction	362	422
No of people provided with affordable housing	490	635
Affordable rent as a percentage of Market Rent	60.0%	52.5%
Share of new above lettings to low income groups	100%	100%
% of new tenancies greater than five years	100%	100%

For the year ended 31 March 2022, 93% of our newly built homes were built to EPC Band B (SAP 581 - 91), only 3% were rated EPC C (SAP 77-80) and we are pleased to report that 4% of our homes during this year were rated EPC A (SAP 94-96.)

3.2 Prevent, reduce and alleviate homelessness

There is often more than one driver behind homelessness and single service solutions often result in individuals falling back into the cycle of homelessness. Hopestead, our Charitable Foundation, partners with regional and national organisations to deliver a collective service package to reduce the risk of homelessness reoccurring.

Hopestead doesn't just seek to provide accommodation to those that are homeless. It seeks to provide the skills needed to thrive in a home in a supportive community. It seeks to provide support with financial resilience and tenancy management skills, essential household items, and tailored support to enable individuals to thrive in their homes.

The objects of Hopestead are to relieve people who are in need by reason of homelessness by the prevention, reduction and alleviation of homelessness and the causes of homelessness and by the creation of sustainable communities primarily in but not limited to the East of England by engaging in the following:

- making of grants;
- the provision of services to individuals and organisations in need;
- engaging in partnerships with organisations working to prevent, reduce, relieve or alleviate homelessness and its causes and to create sustainable communities; and
- by any other means as the Trustees may from time to time decide which are aligned to the objective of addressing the causes of or alleviating homelessness.

Key highlights from the financial year ending 31 March 2022 for Hopestead are summarized below:



3.3 Integrating renewables into the energy system for buildings

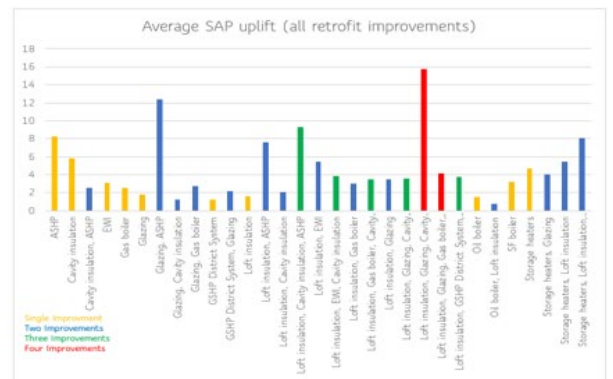
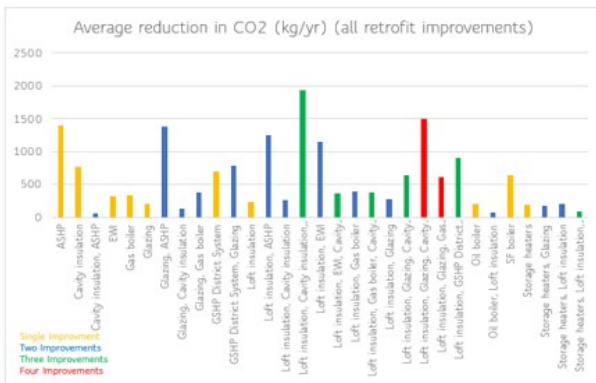
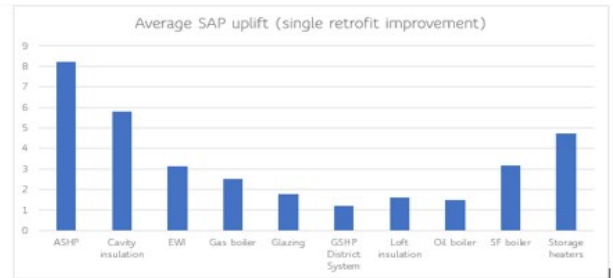
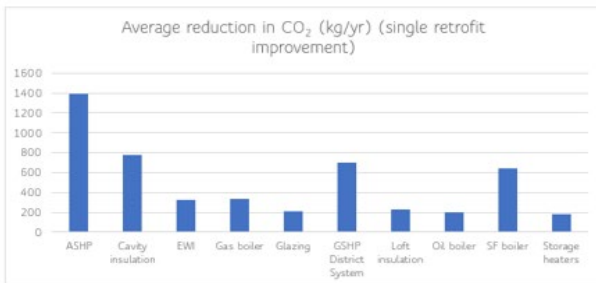
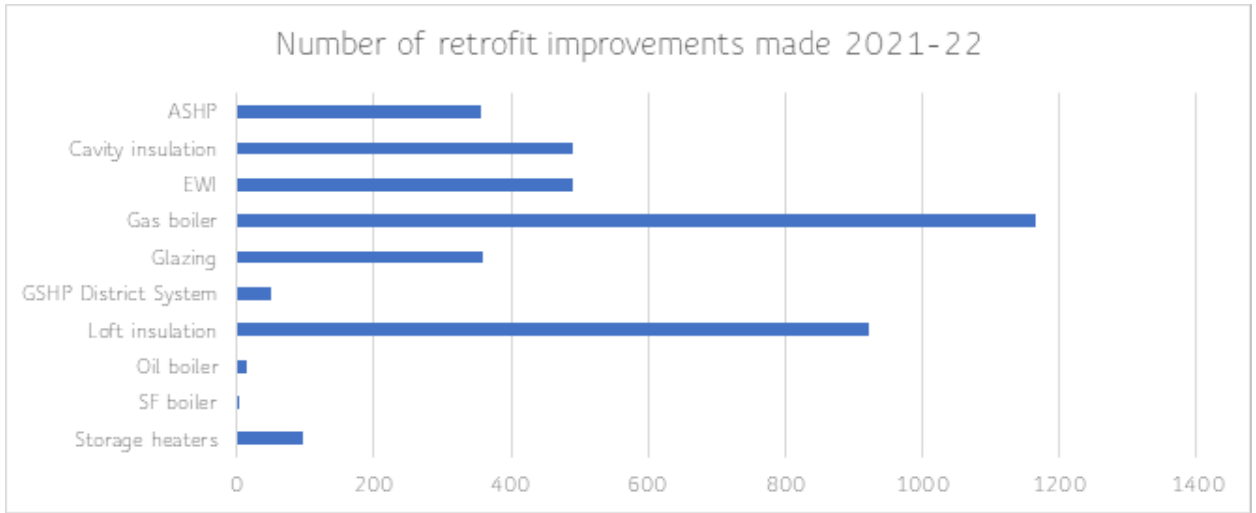
We have a substantial programme of retrofit underway to make our homes more energy efficient and better for the environment. We recently drafted our Carbon Net Zero Strategy which sets out our plans for decarbonisation. All of our existing homes need to reach the minimum Energy Performance Certificate (EPC) Rating Band C by 2030 for those that live in fuel poverty and 2035 for any others.

During the year

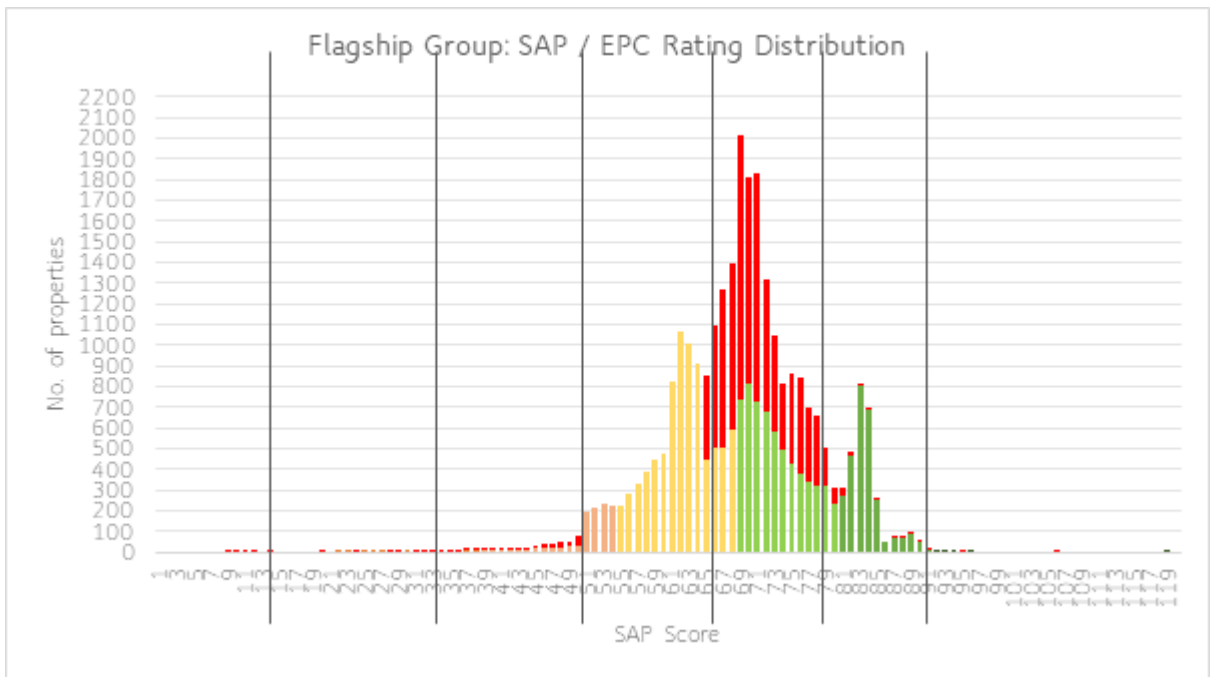
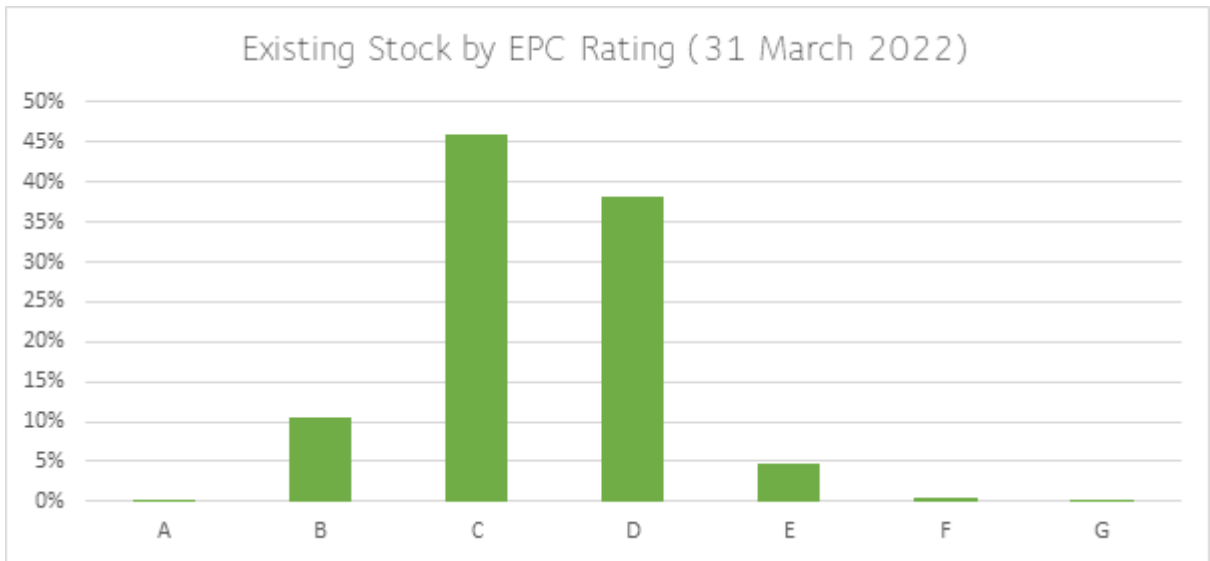
- 389 air source heat pumps installed
- 89 high retention storage heaters installed
- 59 properties installed with solar PV panels
- 3,792 upgrade measures (includes; heat pumps, solar PV, insulation measures)
- Retrofit assessments carried out on our low performing homes
- Increased green jobs – 7 new recruits for the energy team.
- 1,757 switcher thermostats installed taking us up to a total of 2212 installed to date.

The installation of 389 air source heat pumps (and associated works at those properties) has led to a reduction in Scope 2 CO₂e emissions of 519.2 tonnes.

The below charts show the types of work undertaken by the Group retrofitting our properties:



A summary of the EPC position of our stock is set out below:



3.4 Unallocated proceeds

Unallocated drawn proceeds are held in deposit accounts of Flagship Housing Group in line with the Treasury Policy.



Flagship Group

Type of Engagement: Annual Review

Date: June 28, 2022

Engagement Team:

Nilofur Thakkar, nilofur.thakkar@sustainalytics.com

Anirban Sengupta, anirban.sengupta@sustainalytics.com

Introduction

In July 2021, Flagship Group ("Flagship") issued a sustainability bond (Flagship Finance Plc 2061 Bond) aimed at financing existing and/or future projects that support access to affordable and sustainable housing in England. In 2022, Flagship engaged Sustainalytics to review the projects funded through the issued 2021 sustainability bond and provide an assessment as to whether the projects met the use of proceeds criteria and the reporting commitments outlined in the Flagship Group Sustainable Finance Framework (Framework)¹. Sustainalytics has provided a second-party opinion on the Framework.²

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2021 sustainability bond based on whether the projects and programmes:

1. Met the use of proceeds and eligibility criteria of the Flagship Group Sustainable Finance Framework; and
2. Reported on at least one of the key performance indicators (KPIs) for each use of proceeds criteria of the Flagship Group Sustainable Finance Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs³.

Table 1: Use of Proceeds, Eligibility Criteria and Associated KPIs

Use of Proceeds	Eligibility Criteria	Indicative KPIs
Affordable Housing	<ul style="list-style-type: none"> • Construction of new social and affordable homes in the UK • Refinancing of existing social and affordable housing in the UK • Prevent, reduce, and alleviate homelessness through our Hopestead charitable foundation. • For this category, Flagship has defined the target population as people in need of housing who are listed on the housing register for affordable/social homes (the "Register") in the respective jurisdictions in which Flagship operates. Flagship has confirmed that in order to qualify for the Register, applicants must be classified as 'low-income' per the UK Government's definition.⁴ 	<ul style="list-style-type: none"> • Average rent to average market rent of new homes (%) • Number of people provided with affordable housing • Share of new lettings to low-income groups • No. of homes under development and proportion of those that are deemed affordable as a percentage of new tenancies greater than five years. • Existing number of affordable properties by category and average rents charged relative to private sector rents.

¹ Flagship Group's Sustainable Finance Framework is available at Flagship Group's website and can be accessed at: <https://www.flagship-group.co.uk/media/1mad004/flagship-group-sustainable-finance-framework.pdf>

² Sustainalytics' Second-party Opinion for Flagship Group's Sustainable Finance Framework is available at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/flagship-group-sustainable-finance-framework-second-party-opinion.pdf?sfvrsn=69171493_1

³ The Framework defines three categories of social use of proceeds and two categories of green use of proceeds. The Company has allocated proceeds from the current issuance to one social and one green category.

⁴ The threshold for low income in the UK is 60% of median income. For more information: <https://www.gov.uk/government/publications/how-low-income-is-measured/text-only-how-low-income-is-measured>

		<ul style="list-style-type: none"> Number of homeless people supported by Hopestead
Access to Essential Services	<ul style="list-style-type: none"> Financing transformational estate improvement projects and the Placemaking regeneration Flagship defines the target population as the low-income tenants who reside in the communities in which Flagship is based. 	<ul style="list-style-type: none"> Number of transformational estate improvement projects Land area allocated to park and recreational spaces
Socio-economic Advancement and Empowerment	<ul style="list-style-type: none"> Providing digital training, equipment and broadband connectivity for tenants. These services will be aimed at tenants who require extra support from an enablement perspective, with a focus on elderly tenants. 	Number of tenants reached by the programmes
Green Buildings	<ul style="list-style-type: none"> Investing in our existing homes to improve the EPC rating by two notches Construction of new green buildings in the UK (EPC B or above) Re-financing of existing Green Buildings in the UK (EPC B or above) 	<ul style="list-style-type: none"> Number of existing homes that have been renovated, achieving a two-notch EPC rating uplift Construction of new green buildings in the UK (EPC B or above) Number of existing homes with an EPC rating of A or B
Renewable Energy	Projects aimed at integrating renewables into the energy system for buildings	<ul style="list-style-type: none"> Distribution of new homes by heating source Scope 1 and scope 2 CO₂ emissions avoided (existing) - tonnes CO₂.

Issuing Entity’s Responsibility

Flagship is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Flagship’s Sustainability Bond use of proceeds. The work undertaken as part of this engagement included collection of documentation from Flagship employees and review of documentation to confirm the conformance with the Flagship Group Sustainable Finance Group.

Sustainalytics has relied on the information and the facts presented by Flagship with respect to the nominated projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Flagship.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁵ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the projects funded with proceeds from Flagship's sustainability bond, are not in conformance with the use of proceeds and reporting criteria outlined in the Flagship Group Sustainable Finance Framework. Flagship has disclosed to Sustainalytics that of the total GBP 250 m issuance, 60.92% of the Flagship Finance Plc 2061 Bond proceeds were allocated⁶ and a balance of drawn unallocated proceeds of GBP 47.7 m will be held as cash deposits in line with Flagship's treasury management policy.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the 2021 sustainability bond to determine if projects aligned with the use of proceeds criteria outlined in the Flagship Group Sustainable Finance Framework and above in Table 1.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the 2021 sustainability bond to determine if impact of projects was reported in line with the KPIs outlined in the Flagship Group Sustainable Finance Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per use of proceeds criteria.	None

⁵ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

⁶ Flagship intends to fully allocate the proceeds from the issued Sustainability Bond within 24 months of the date that the bond was issued.

Appendix

Appendix 1: Allocation Reporting by Eligibility Criteria

In July 2021, Flagship Group issued a sustainability bond, with the net proceeds to be GBP 250 m. As of end of March 2022, Flagship has allocated GBP 152.3 m to the eligible projects, with GBP 150 m drawn in July 2021 and additional GBP 50 m in January 2022. Of the eligible categories, 57.32% of the allocated net proceeds were used to finance new projects, while 42.67% were used to refinance existing projects. The table below provides a detailed break-up of the allocation of net proceeds category-wise.

Use of Proceeds Category	Project Description	Type of Expenditure	Net Bond Proceeds Allocation (in GBP millions) in 2021 (Refinanced)	Net Bond Proceeds Allocation (in GBP millions) in 2022
Affordable Housing	Construction of new social and affordable homes in the UK ⁷	Capital Expenditure	65.0	81.0
	Prevent, reduce and alleviate homelessness through our Hopestead charitable initiative	Operating Expenditure ⁸	-	0.6
Renewable Energy	Projects aimed at integrating renewables into the energy system for buildings	Capital Expenditure		5.7
Total			65.0	87.3
Total drawn amount allocated			GBP 152.3 m	
Unallocated Drawn Proceeds			GBP 47.7 m	
Unallocated Undrawn Proceeds			GBP 50.0 m	
Total unallocated Proceeds			GBP 97.7 m	

Appendix 2: Impact Reporting by Eligibility Criteria

Use of Proceeds Category	Key Performance Indicators	Year ended 31 March 2021	Year Ended 31 March 2022
Affordable Housing	New affordable homes completed	460	564
	New affordable homes in construction	362	422
	No of people provided with affordable housing	490	635
	Affordable rent as a percentage of Market Rent	60.0%	52.5%
	Share of new above lettings to low-income groups	100%	100%
	% of new tenancies greater than five years	100%	100%

⁷ Flagship has confirmed to Sustainalytics that the amounts allocated by the bond issued under "Affordable Housing" are targeted towards people in need of housing who are listed on the housing register for affordable and social homes (the "Register") in the respective jurisdictions in which Flagship operates.

⁸ The Company has confirmed to Sustainalytics that all operating expenditure (opex) are directly associated with the development and maintenance of the eligible green and social assets.

	Number of homeless people supported by Hopestead	The impact for this is provided in the Use of Proceeds Investor report. ⁹
Renewable Energy	Retrofits added for enhancing the energy efficiency of the existing homes ¹⁰	<p>389 air source heat pumps installed</p> <p>89 high retention storage heaters installed</p> <p>59 properties installed with solar PV panels</p> <p>3,792 upgrade measures (includes heat pumps, solar PV, insulation measures)</p> <p>1,757 switched thermostats installed making up to a total of 2,212 installed to date.</p>
	Scope 1 and scope 2 CO ₂ emissions avoided (existing) - tonnes CO ₂ . ¹⁰	Total scope 2 emissions avoided: 519.2 tonnes

⁹ The Use of Proceed Investor report details the impact created by Hopestead funded by the sustainability bond and can be accessed at: [https://urldefense.com/v3/_https://www.flagship-group.co.uk/about-us/investors-hub/_:!!D8DunMSJ4IdR!_MbpDOW2WengAkmMOKpznr-XPzpkAOkw0mctGfNCrhnE5OlydSZ-dQy14zsXzte1cVpwRQisYT2GPXfZ_yNO7Ce_aThz21mCZLz6wpm0xZG\\$](https://urldefense.com/v3/_https://www.flagship-group.co.uk/about-us/investors-hub/_:!!D8DunMSJ4IdR!_MbpDOW2WengAkmMOKpznr-XPzpkAOkw0mctGfNCrhnE5OlydSZ-dQy14zsXzte1cVpwRQisYT2GPXfZ_yNO7Ce_aThz21mCZLz6wpm0xZG$)

¹⁰ The impact measured is for the year ending as 31 March 2022.

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For more information, visit www.sustainalytics.com

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