

Sustainable Finance Framework

June 2021



Contents

| | |
|--|-----------|
| Thoughts from our Chief Executive | 3 |
| Framework Rationale | 4 |
| Section 1: Who is Stonewater? | 5 |
| 1.1 What we do | 5 |
| 1.2 Our Sustainability Agenda | 6 |
| 1.3 How Environment, Social & Governance (“ESG”) is part of Stonewater | 7 |
| 1.4 How we intend to meet our objectives – Case studies | 8 |
| 1.5 Sustainability Reporting Standards | 10 |
| Section 2: Sustainable Finance Framework | 11 |
| 2.1 Use of Proceeds | 11 |
| 2.2 Process for Project Evaluation and Selection | 12 |
| 2.3 Management of Proceeds | 12 |
| 2.4 Reporting | 13 |
| 2.5 External Review | 13 |
| Disclaimer | 14 |



Thoughts from our Chief Executive



As one of the UK's leading social housing providers, Stonewater is committed to providing warm, comfortable homes for our customers and supporting them to live healthier lifestyles, while minimising our overall impact on the environment.

The government has committed to reducing the UK's greenhouse gas emissions to net zero by 2050. In the UK, residential housing stock contributes to around 15% of total greenhouse gas emissions. As we own and manage homes across England, we have a significant role to play in supporting the nation's drive to reduce these emissions. We aim to achieve this through our ambitious development plans for building new affordable and energy-efficient, sustainable homes, alongside making improvements to the EPC ratings of our existing homes.

As a result of the coronavirus pandemic, social housing providers including Stonewater were propelled to adapt to change. With a focus on our customers safety, we responded quickly to ensure essential services could continue throughout the crisis. We also introduced flexible payment arrangements, guaranteeing support to those customers experiencing financing hardship. Although just a couple of examples, our organisation's ability to adapt during 2020 is testament to the strength of our social sustainability and illustrative of our effective and robust governance. This is something which has also been recognised by the *Regulator of Social Housing* who currently grade Stonewater as **G1**, the highest standard which can be awarded to a social housing provider when assessing governance.

In a post-pandemic world, we believe that delivering 'earth friendly', sustainable solutions will become more important than ever and it's something we feel very passionately about. Making the UK's housing stock fit for the future will have a major impact in reducing emissions and helping the UK government meet its net zero target on CO₂. The challenge of decarbonising the UK's existing housing stock is significant, and will require innovative policy, investment and logistical solutions to solve it. At Stonewater, we want to play an active part in ensuring the UK meets its target.

This Sustainable Finance Framework ("SFF") is driven by our vision for everyone to have the opportunity to have a place that they can call home and our commitment to sustainability. It demonstrates what investment Stonewater can make in this area, and the social and environmental benefits our customers will experience.

A handwritten signature in black ink that reads "Nicholas Harris". The signature is written in a cursive, slightly informal style.

Nicholas Harris
Chief Executive

Framework Rationale

Our purpose is to develop new affordable and sustainable housing, as well as improving sustainability of our existing housing stock. **We consistently look to improve our transparency and disclosure to our stakeholders and, as a consequence,** have taken the opportunity to develop an SFF, aligning debt products with our sustainability strategy.

We hope the establishment of an SFF illustrates yet another long term commitment to sustainability and attracts funders that share our sustainability ethos and values. In doing so, we expect to be able to combine financing with the targets set out in the United Nations' Sustainable Development Goals ("SDG").

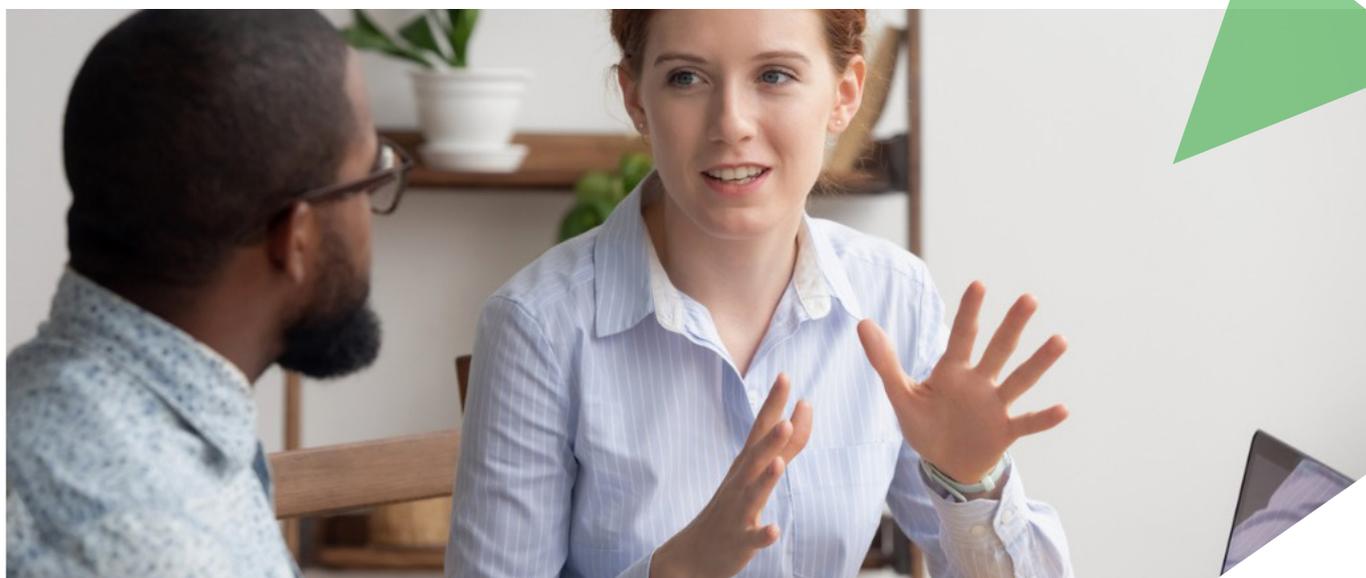
The SFF aligns with internationally recognised principles and outlines how Bonds, Loans and other financing instruments such as Private Placements, Inter-Authority Deposits¹ will be entered into. Bonds issued under the framework will be aligned to the International Capital Markets Association ("ICMA") Green Bond Principles 2018 ("GBP") / ICMA Social Bond Principles 2020 ("SBP") / ICMA Sustainability Bond Guidelines 2018 ("SBG") or as they may be subsequently amended. Loans issued under the framework will be aligned to the Loan Market Association ("LMA") Green Loan Principles 2020 ("GLP") and the LMA Social Loan Principles 2021 ("SLP") or as they may be subsequently amended.

The SFF follows the four core components below but will also intend to give stakeholders an insight into our sustainability agenda at Stonewater.



The SFF has been externally reviewed to confirm alignment to the ICMA and LMA principles detailed above.

¹ Inter-Authority Deposits are defined as Short-term borrowing/lending in between UK local authorities and other public institutions



Section 1: Who is Stonewater?

1.1 What we do

Stonewater is one of the UK's largest social housing providers, with a mission to deliver good-quality, affordable homes to people who need them most. We manage around **33,300*** homes in England for over **70,000 customers**, including affordable properties for rent, shared ownership and leasehold; alongside specialist accommodation such as retirement and supported living schemes for older and vulnerable people, domestic abuse refuges, a dedicated LGBTQ+ Safe Space, and young people's foyers.



We are defined as a registered provider of social housing and comply with the regulatory framework established by the UK Government. The 2015 regulatory framework² for social housing in England comprises of:

- 1. Regulatory requirements** – obligations on registered providers, including the 'rent standard' for social and affordable housing and 'consumer standards' for the provision of the housing service;
- 2. Codes of practice** – assists registered providers in understanding how compliance might be achieved; and,
- 3. Regulatory guidance** – this provides further explanatory information on the regulatory requirements and includes information on how the regulator will carry out its role.

² <https://www.gov.uk/government/organisations/regulator-of-social-housing>

The standards are classified as either 'economic' or 'consumer' and serve to ensure social housing providers comply with specific expectations in relation to home and tenancy management – particularly through the Economics standards³, Home Standard⁴ and Tenancy Standard⁵. There are three economic standards and four consumer standards as below:

Economic Standards:

- Governance and Financial Viability Standard
- Value for Money Standard
- Rent Standard

Consumer Standards:

- Home Standard
- Tenancy Standard
- Neighbourhood and Community Standard
- Tenant Involvement and Empowerment Standard

We recognise the importance of Board members to have skills and experience to reflect our services, our customers and the size and strength of the business.

Our Board is responsible for the proper and effective management of Stonewater, providing overall strategic direction and ensuring that the organisation meets its strategic aims and objectives. The delegation and control framework established by the Board includes accountability to customers and other stakeholders, such as funding providers and partner local authorities.

³ <https://www.gov.uk/guidance/regulatory-standards>

⁴ <https://www.gov.uk/government/publications/home-standard/home-standard-2015>

⁵ <https://www.gov.uk/government/publications/tenancy-standard/tenancy-standard-2015>



1.2 Our Sustainability Agenda

Our vision, 'For everyone to have the opportunity to have a place that they can call home', runs in parallel to our commitment to doing the right thing for our customers and the environment. We believe our customers' homes should be warm, comfortable and affordable to run.

It is therefore our ambition to create sustainable communities for our customers by improving the energy efficiency of our existing homes, reducing fuel costs for our customers and minimising our overall impact on the environment.

As a charitable housing association, our Environmental and Sustainability Strategy, is mostly focused around developing new, sustainable, affordable, and energy-efficient homes with no overall impact on the environment, whilst also improving our existing homes to ensure they also meet our ambitious sustainability targets, for the benefit of all our customers.

Our aim is also to engage with our customers with regard to energy and environmental improvements, by getting their thoughts and opinions as well as reducing our overall corporate environmental impact. To achieve this, we are currently working with our customers to determine how they would prefer to communicate with us on this issue so we can maximise any outreach opportunities.

As part of our Environmental and Sustainability Strategy, the targets, **where we believe we can create the most benefit**, are as follows:

Development of new affordable and sustainable housing

- Build 6,250 new homes in the five-year period until March 2024
- Develop 1,500 new homes every year from 2022/23
- Develop strategies for sustainable procurement, sustainable waste management and water management

Reduce our net carbon emissions

- Develop a credible strategy for reducing our carbon emissions
- Have no homes with an EPC rating below Band C [SAP 69] by 2030
- Reduce our office carbon footprint by 33% to 81.5 tons per annum and our business mileage carbon footprint by 33% to 482 tons per annum by March 2022; compared to the financial year 2019/20



1.3 How Environment, Social & Governance (“ESG”) is part of Stonewater

Our social purpose is at the very heart of the organisation. Whilst our foundations are built on providing good-quality, affordable homes, above and beyond that, we have an ongoing relationship with the people in those homes. So, the way we deliver our services and work with customers is pivotal.

We also recognise that, over and above our core social purpose, we have a wider responsibility to society and the environment we operate in. Our approach to incorporating social responsibility underpins all of our activities and the way we operate as a business; maximising both the value for customers and their opportunities to thrive in their homes. Opposite are just a handful of examples of how we bring this to life.

Our Customer Promise

“ We’re proud to make things personal. If it matters to our customers, it matters to us.

The Longleigh Foundation (“Longleigh”)



Longleigh was established by Stonewater in 2015 in response to the impact of Government Budget and welfare cuts affecting some of our most disadvantaged residents. The charity’s mission is to help transform the lives of people and communities in the social housing sector over and above their basic housing needs.

In 2017, the Foundation was named Innovation of the Year at the 24housing Awards for its contribution to the people and communities affected by budget cuts. Longleigh also provides funding to support specialist projects and help customers to thrive in their tenancies such as:

- An accommodation-based domestic abuse service in South Hampshire
- A digital inclusion programme, which aims to promote social inclusion and improve health and wellbeing activity for our older customers
- Access to digital technology and digital skills training for families
- A specialist LGBTQ+ Safe Space service in Swindon
- An LGBTQ+ youth group to support teenagers identifying as a member of the LGBTQ+ community

Community Involvement and Development

With a commitment to putting our customers at the heart of everything we do, we understand the importance of listening to our customers and involving them to help shape the design of our services, improve homes and enhance the services they receive.

We are signed up to the National Housing Federation’s ‘Together with Tenants’ initiative. This is a sector-wide campaign that was launched to strengthen relationships between social landlords and their residents, presenting an opportunity for housing associations like us to take the lead in accountability and resident oversight.

Social Return on Investment

Measuring social return on investment forms part of our overarching Value for Money Strategy. We measure the ‘added value’ of our services for our customers and the communities we work in by calculating a social return on investment (“SROI”), gathering and recording information using the Housing Association Charitable Trust (“HACT”) model. The SROI figures are then validated and certified by HACT at the end of the financial year and disclosed in our Annual Report.



Dinton Pastures – Tree Planting Partnership with Community Forest Trust

1.4 How we intend to meet our objectives – Case studies

We recognise that actions speak louder than words and the following illustrates a selection of initiatives and pilot schemes currently being progressed across the organisation:

Energy Superhub Oxford Project

We are currently involved in the Energy Superhub Oxford Project, one of only four smart local energy system projects in the UK. The project aims to install ground-source heat pumps into 60 of our properties. These are combined with smart thermostats and time of use electricity tariffs – optimising our customers’ heating to meet their needs in the most cost-effective way.

Large-scale air-source heat pump project

We have recently completed a large-scale air-source heat pump project in Swindon, improving the Energy Performance Certificate (EPC) rating of the homes from Band D to Band B in most cases. To date, we have over 500 homes heated by heat pumps and we are continuing to roll out low-carbon heating systems, where possible.

Generating and storing local energy

We are also investigating innovative ways to power and heat our homes for the future. We are currently undertaking a feasibility study into local energy networks, which will involve generating and storing energy locally, whilst supporting grid-balancing. This study will also look to determine whether this solution can provide a way of helping to decarbonise our homes whilst giving Stonewater the ability to keep energy prices down, making them more affordable to run for our customers.

Tree Planting and Edible Landscaping

Community Forest Trust plants five trees for every home we build and we support them to fund community outreach programmes that help children engage with nature.

In addition, we plant one tree for every new home on our new schemes as well, including fruit trees and edible landscaping in our communities.

We’re proud to be the first registered provider in the UK to demonstrate our environmental responsibilities in this way – so far we have planted over 12,258 trees.

Passive houses and modern methods of construction

We are currently building our first Passive House scheme in Chard, Somerset utilising a flying factory locally to the site and this scheme will offer a better living environment, with very low heating bills, superior air quality and high performance homes.

We are currently in contract with three Modular Manufactures across three sites delivering affordable housing across the country and are exploring a few more manufacturers and aim to have a partnering arrangement with our preferred suppliers.

It all adds up

A holistic approach to what we build is a key consideration at Stonewater. Some examples of this include the addition of battery storage in our highly thermally efficient modular homes in Peacehaven, helping our customers gain maximum benefit from the solar PV panels installed on the roofs of their homes coupled with an intelligent heating system which only heats the space being occupied. Installing Wondrwall technology on our scheme in Axbridge, a system which learns and works around our customer, understanding which rooms are used the most and how our customers use heating and lighting in their homes to enhance their environment and enable them to reduce their carbon impact. We are trialling infra-red heating in a small block of flats, a system which heats the person and not the air which results in a very efficient and cost effect heating system when coupled with a fabric first approach to the construction of the flats. Working with our contractor partners to not only reduce construction waste but to specifically reduce the amount of single use plastic used in the construction process with partners committing to targets agreed with Stonewater and working with their supply chains.



1.5 Sustainability Reporting Standards

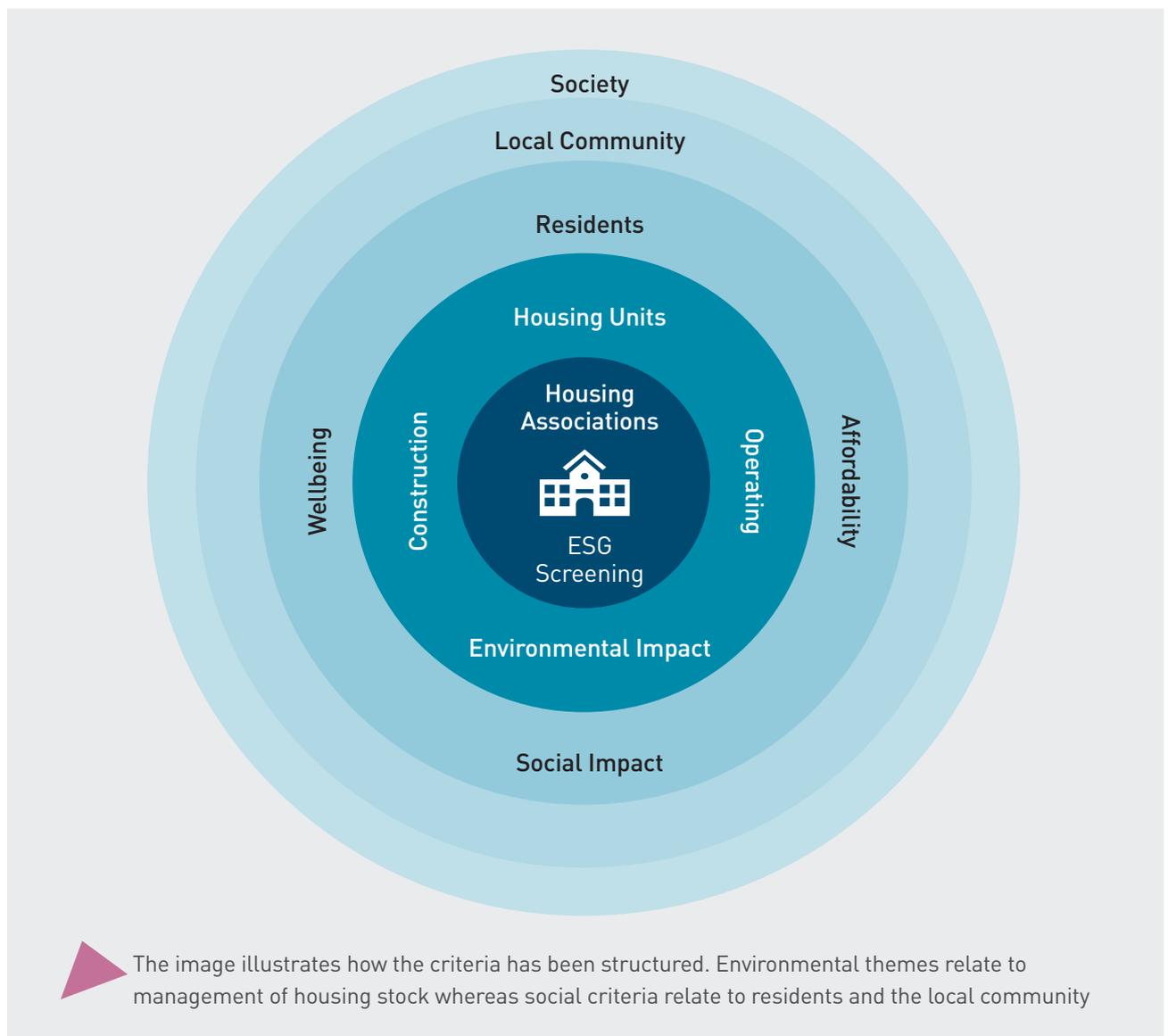
There is an increasing requirement for the UK social housing sector to provide consistent reporting on ESG performance and priorities.

In May 2020, a working group produced a voluntary ESG reporting framework for social housing providers. Following several consultations, this led to the Sustainability Reporting Standard for Social Housing launched in November 2020⁶.

It consists of 12 themes including “Affordability and security”, “Building safety and quality”, “Resident voice”, “Resident support”, “Climate change” and “Ecology” – and 48 criteria for ESG reporting by housing associations. The criteria are also aligned with international ESG frameworks and standards including the UN SDGs, the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the ICMA and LMA Principles.

The standard brings consensus on how to track and report on ESG performance in the social housing sector, which will help decrease the ESG reporting burden on housing associations. Social housing is understood to be first UK sector to come together with lenders and investors to create a common sustainability reporting standard. This will be embedded within the Stonewater annual reporting cycle from 2020/21.

We have made a commitment to become an early adopter and will embed this reporting framework in our annual reporting cycle.



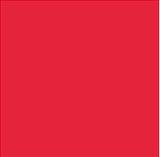
⁶ https://esgsocialhousing.co.uk/wp-content/uploads/2020/11/SRS_final-report-2.pdf

Section 2: Sustainable Finance Framework

We at Stonewater recognise the importance of supporting the vision put forward by the UN SDGs. The SFF has enabled us to improve our transparency to stakeholders and, where we believe to be possible, align debt instruments to specific SDGs relevant to our business.

2.1 Use of Proceeds

Net proceeds raised under this SFF, will be utilised to finance and/or refinance suitable projects subject to ICMA and LMA principles. The net proceeds will only be utilised for suitable projects 36 months before or 12 months after the issuance date of the debt instruments, as well as re-financing of existing eligible assets.

| Impact | ICMA Category ⁶ | Description ⁷ | Reference financial line item | SDG alignment |
|------------------|---------------------------------|---|-----------------------------------|--|
| A. Social | Affordable housing ⁸ | Construction of new Social and Affordable Housing in the UK | Expenditures – construction costs | <div style="border: 1px solid red; padding: 2px; display: inline-block;">TARGET 1-4</div>  <div style="border: 1px solid red; padding: 2px; font-size: 8px;">EQUAL RIGHTS TO OWNERSHIP, BASIC SERVICES, TECHNOLOGY AND ECONOMIC RESOURCES</div> |
| | | Refinancing of existing social and affordable housing in the UK | Asset value | <div style="border: 1px solid orange; padding: 2px; display: inline-block;">TARGET 11-1</div>  <div style="border: 1px solid orange; padding: 2px; font-size: 8px;">SAFE AND AFFORDABLE HOUSING</div> |
| B. Environmental | Green Buildings | Construction of new homes with an EPC rating of A or B | Expenditures – construction costs | <div style="border: 1px solid orange; padding: 10px; display: flex; align-items: center; justify-content: center; width: 60px; height: 60px; margin: 0 auto;">11</div> |
| | | Renovation of existing homes that improve unit EPC ratings by two notches | Expenditures | |
| | | Refinancing of existing homes – subject to a minimum EPC rating of A or B | Asset value | <div style="border: 1px solid green; padding: 10px; display: flex; align-items: center; justify-content: center; width: 60px; height: 60px; margin: 0 auto;">13</div> |

⁷ <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Green-Bonds-Principles-June-2018-270520.pdf>

⁸ A single asset can only fall in one category

⁹ Inclusive of social rent, affordable rent and shared ownership

2.2 Process for Project Evaluation and Selection

Overall accountability for the SFF lies with Stonewater's Executive Directors Group (EDG). EDG is a cross divisional committee including senior representatives from finance, development, assets, corporate services and customer experience. It is responsible for overseeing many of Stonewater's internal policies and compliance procedures.

As part of its role in overseeing the SFF, Stonewater's EDG will:

- Approve the addition of eligible projects / expenditures
- Oversee the eligible project portfolio, confirming its continued compliance with Stonewater's SFF
- Review the content of Stonewater's SFF and updating it to reflect changes in market standards (such as relevant ICMA and LMA principles) and the organisation's strategy on a best-efforts basis
- Exclude projects or investments that no longer comply with the eligibility criteria or have been disposed of and replacing them on a best-efforts basis
- Facilitate the allocation and impact report provision under the SFF

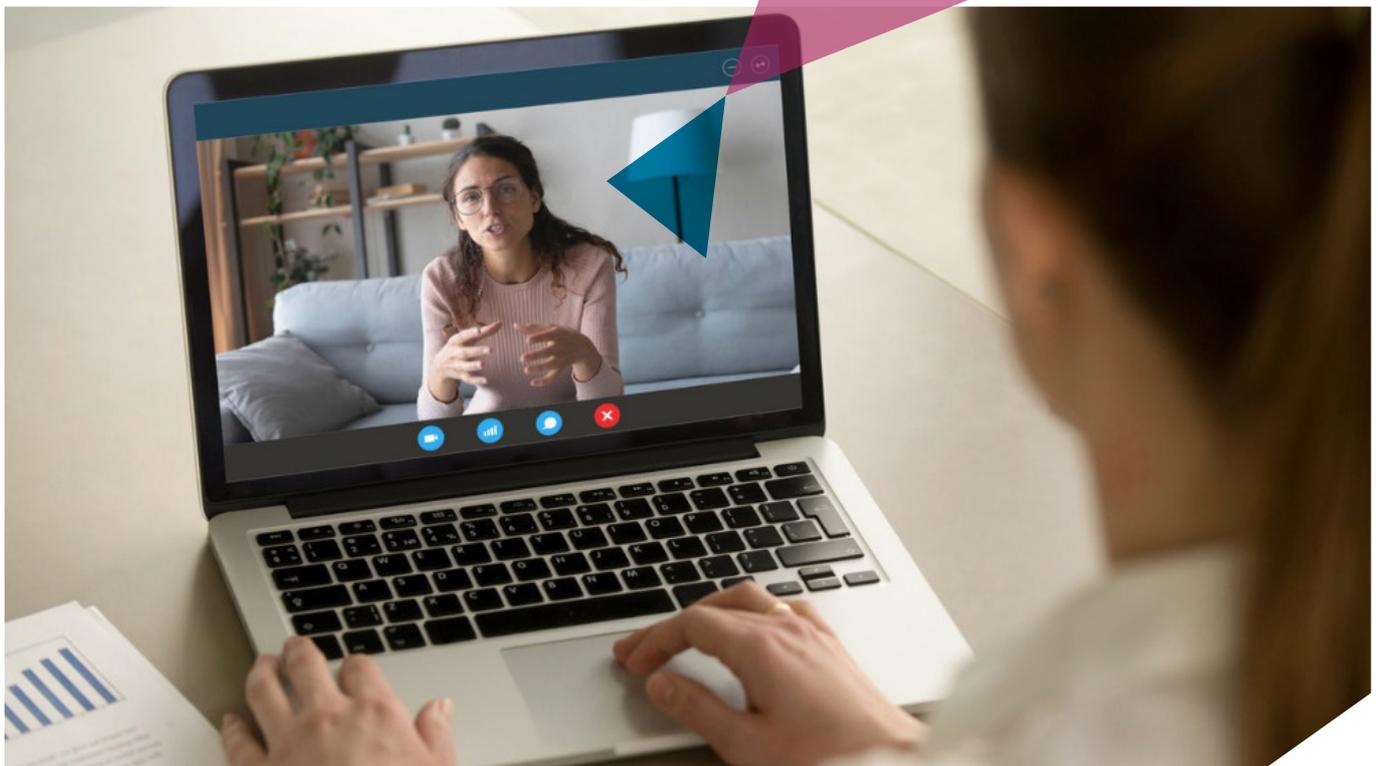
Additional subject matter experts can be invited to attend EDG meetings as and when required.

2.3 Management of Proceeds

Stonewater intends to allocate the proceeds from any sustainable financing transaction(s) to an eligible project portfolio, selected in accordance with the use of proceeds criteria and the evaluation and selection process presented above.

The EDG will ensure that sustainable projects financed exceed net proceeds raised under our SFF, for as long as the financing remains in place. Additional projects will be added to the issuer's eligible project portfolio to the extent required, as a result of, for instance, divestments, thereby ensuring that an amount equal to the net proceeds from outstanding debt instruments is allocated to projects until the maturity of the debt instruments.

Pending the full allocation to the eligible project portfolio, Stonewater is permitted to use any unallocated funds for either debt repayment and/or its treasury liquidity portfolio – which can include deposits, money market funds and other similar products in accordance to our Treasury Management Policy. Stonewater's finance team will take principal responsibility for managing this process.



2.4 Reporting

Stonewater will make and keep publicly available reporting on the allocation of net proceeds and wherever feasible report on the impact of the projects, within 12 months from the issuance of any Sustainable Debt Instrument, to be renewed annually until full allocation of the net proceeds. Any material developments, such as modification of the SFF or allocation portfolio, will be reported in a timely manner.

The impact report will outline on progress made, against a selection of sustainability indicators, relevant for the social housing sector in the United Kingdom. The sustainability indicators will be released on our Investor Relations website, in addition to the release of our annual financial reporting.

2.4.1 Allocation Reporting

The allocation report will provide:

- I. The total amount of proceeds allocated to each project with a clear reference to the type of financial expenditure (expenditure or asset value)
- II. The amount and/or percentage of new and existing projects (share of financing and refinancing)
- III. The balance of unallocated proceeds

2.4.2 Impact Reporting

Impact reporting for any debt issuance under this SFF will leverage metrics from the Sustainability Reporting Standard for Social Housing, as well as include additional metrics to monitor our performance. Whilst not exclusive, below gives an example of the indicative impact metrics:

Affordable Housing:

- 1) Number of new affordable properties by category and average rents charged relative to private sector rents
- 2) Existing number of affordable properties by category and average rents charged relative to private sector rents

Green Buildings:

- 1) % of new homes with an EPC rating of A or B
- 2) Change in distribution of EPC ratings of existing homes
- 3) Number of existing homes with an EPC rating of A or B

2.5 External Review

Stonewater's SFF has been reviewed and verified by ISS Corporate Solutions, Inc., who confirms that the SFF is aligned with ICMA GBP 2018, ICMA SBP 2020, ICMA SBG 2018, LMA GLP 2018, and LMA SLP 2021.

For as long as any sustainable finance instrument is outstanding, Stonewater will engage an independent third-party assurer to provide independent assurance that sustainable finance raised, at all times, remains aligned with relevant sustainable finance principles.

Disclaimer

This document is intended to provide non-exhaustive, general information. This document may contain or incorporate by reference public information not separately reviewed, approved or endorsed by Stonewater. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Stonewater as to the fairness, accuracy, reasonableness or completeness of the information in this document.

This document may contain statements about future events, projections, expectations, prospects and estimates that are forward looking statements (together, "forward looking statements"). None of the forward looking statements in this document should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such forward looking statements have been prepared are correct or exhaustive or fully stated in the document. Stonewater undertakes no obligation to update, modify or amend this document, to reflect actual changes in assumptions or changes in factors affecting forward looking statements or to otherwise notify any addressee if any forward looking statement set forth herein changes or subsequently becomes inaccurate.

This document is not intended to be and should not be construed as providing legal or financial advice. It does not constitute an offer or invitation to sell or any solicitation of any offer to subscribe for or purchase or a recommendation regarding any securities. Nothing contained herein shall form the basis of any contract or commitment whatsoever. This document has not been approved by any security regulatory authority.

The distribution of this document may be subject of legal restrictions in some countries. Persons who might come into possession of it must inquire as to the existence of such restrictions and comply with them.

The information in this document has not been independently verified.

The addressee is solely liable for any use of the information contained in this document and Stonewater shall have no responsibility for any damages, direct, indirect or otherwise, arising from the use of this document by the addressee.