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Use of Proceeds

Flagship Finance Plc - 2061 Bond

For the Period to 31 March 2023

1. Introduction

- 1.1 Flagship Group is the East of England’s largest affordable housing provider with 32,500 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.2,500 affordable homes over the next five years, and we want to build them to high environmental standards. We know that a decent safe home positively impacts our tenant’s quality of life. We are focused on achieving EPC C in all our homes by 2030 and have a clear plan to retrofit our existing homes through a fabric-first approach, with a key focus on thermal improvements and renewable energy 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 <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	100.3	246.3
		Prevent, reduce and alleviate homelessness through our Hopstead charitable initiative	Operating Expenditure	-	0.6	1.0	1.6
Environmental	Renewable Energy	Projects aimed at integrating renewables into the energy system for buildings	Capital Expenditure	-	5.7	6.6	12.3
Total				65.0	87.3	107.9	260.2
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						0.0
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 Group’s activities in the construction of new Social and Affordable homes.

	Year ended 31 March 2022	Year ended 31 March 2023
New affordable homes completed	564	632
New affordable homes in construction	422	836
Affordable rent as a percentage of Market Rent	60%	60%
Share of new affordable homes let to low-income groups	100%	100%
% of new tenancies greater than five years	100%	100%

For the year ended 31 March 2023, 98% of our newly built homes were built to EPC B or above (SAP 81 or above), with only 2% rated EPC C (SAP 75-80). 8% of our homes during the year ended 31 March 2023 were rated EPC A (SAP 92+). Our goal is to deliver new build homes which will require minimal future retrofit in line with the UK Government’s 2050 Net Zero target.

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, is dedicated to ending homelessness in East Anglia, and partners with regional and national organisations to deliver a collective service package to reduce the risk of homelessness reoccurring.

Hopestead believes that everyone deserves a place to call home and that it is possible to end homelessness through a combination of prevention, support and advocacy.

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. Hopestead provides housing support to help individuals find a place they can call home and provides support to maintain their tenancy and remain in their home. Hopestead provides financial assistance to reduce the risk that debt creates a cycle back into homelessness. Hopestead seeks to signpost training and employment opportunities, enabling individuals to feel connected within their community with the skills to support themselves financially. Hopestead seeks to ensure its service users have access to mental health and addiction support to reduce the risk of another key driver for returning to homelessness. Working collaboratively with other service providers has been shown to be the best way to reduce the risk of individuals returning to homelessness.

Hopestead also works to prevent homelessness by: (i) advocating for policy changes that will help to prevent homelessness; (ii) raising awareness of homelessness and the challenges that those who are homeless face, but not just the lack of housing provision,

often many homeless individuals have underlying drivers for homelessness, such as mental health challenges, addictions, and debt challenges, which mean maintaining a tenancy is challenging; and (iii) supporting research into homelessness and the best ways to prevent it.

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 evidencing Hopestead social impact from 2022/23 are summarized below:

	<p>EVERYONE DESERVES A PLACE TO CALL HOME</p>	<p>Donated £18k to 4 domestic abuse charities across East Anglia to support those experiencing homelessness</p>	<p>Raised an £1,951.70 through Hope at Christmas 2022 campaign. 50 parcels with emergency essential items.</p>	
<p>Awarded £177k to 19 charity partners to support and increase their impact to 10,970 beneficiaries</p>	<p>Signposted 59 individuals and families to additional support</p>	<p>Gifted 124 appliances to 81 households through Hope Essentials white goods scheme</p>	<p>Held 2 Hope in Action events, bringing together individuals and partners to network and grow sustainable strong community links</p>	
	<p>Developed partnerships with 40 likeminded charities, organisations and community groups</p>	<p>Supported 219 households moving into their first tenancy following homelessness with furniture, white goods and flooring</p>	<p>Funded the support of 152 beneficiaries, provided 46 beds and 38 rooms for those experiencing homelessness</p>	<p>Held 8 cash donation events on streets of East Anglia and at our community champion partners, Morrisons with 23 Flagship Group volunteers</p>
	<p>Carried out 5 interviews with Hope at Home service users to better understand their experience of homelessness and improve our services</p>	<p>Provided 74 households moving in from position of homelessness with additional essential items for their home</p>		

For further information, Hopestead has published its impact report for 2020/22 which is available at >>

https://www.hopestead.org/app/uploads/2023/02/Hopestead_Impact-Report-2020-2022.pdf

3.3 Integrating renewables into the energy system for buildings

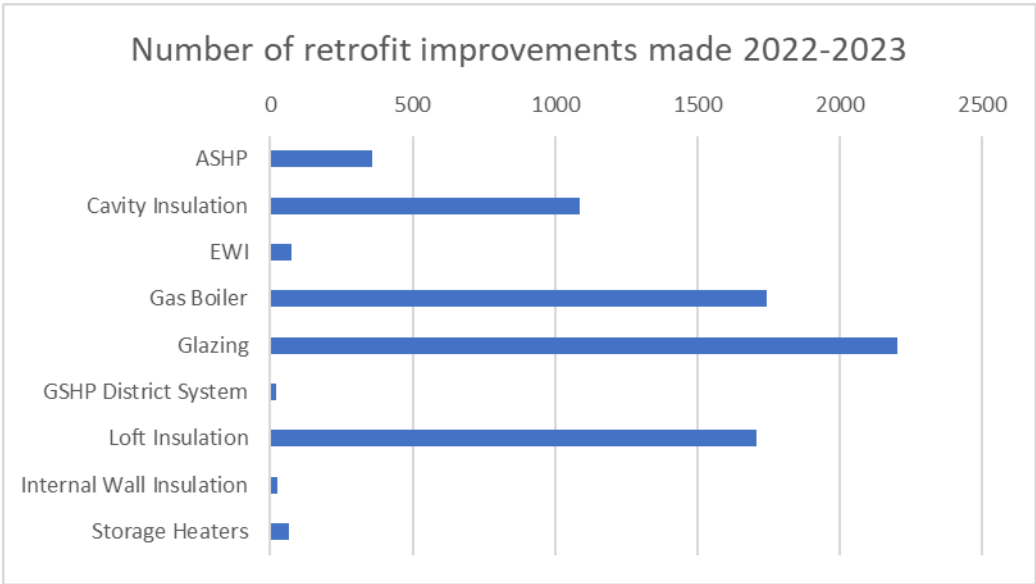
We are currently implementing a comprehensive retrofit program aimed at enhancing energy efficiency and promoting environmental sustainability. Our retrofit programme takes a 'fabric first' approach; ensuring that we are addressing the thermal efficiency of our homes to ensure they all meet an EPC C/SAP 69 or above by no later than 2030. We are addressing our worst performing homes with the lowest EPC scores who are in need of the greatest thermal improvements as a matter of urgency where possible.

During the year 2022-2023

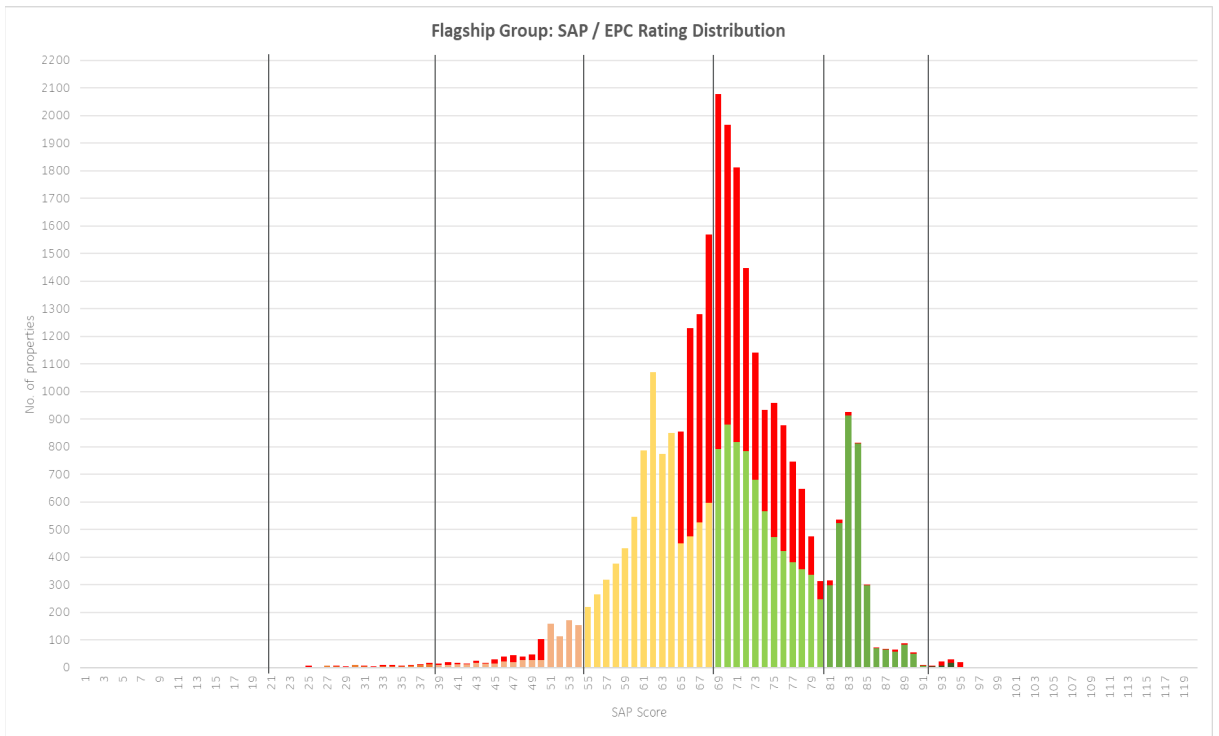
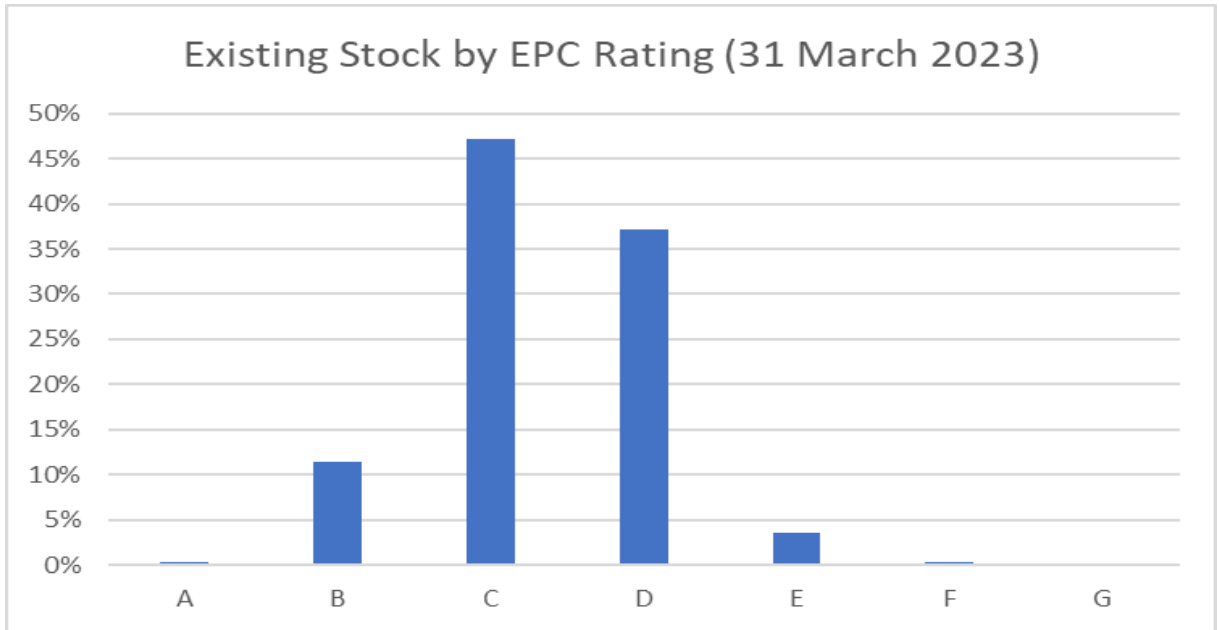
- 360 air source heat pumps installed
- 67 high-retention storage heaters installed
- 63 properties installed with solar PV panels
- 3,401 upgrade measures (includes; heat pumps, high retention storage heaters, solar PV, insulation measures)
- 622 retrofit assessments carried out on our low-performing homes
- 2,105 smart thermostats installed taking us up to a total of 4,317 installed to date
- 757 double-glazed UPVC windows installed
- 1,447 thermal efficient composite doors installed

The installation of 360 air source heat pumps (and associated works at those properties) has led to a reduction in Scope 2 CO2e emissions of 504 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:



Coloured bars = Actual Assessed Score
 Red Bars = Modelled Score

Flagship Group



Type of Engagement: Annual Review

Date: July 20, 2023

Engagement Team

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Introduction

In July 2021, Flagship Finance Plc (Flagship) issued a sustainability bond (2061 Bond) to finance existing and future projects aimed at supporting access to affordable and sustainable housing in England. In 2023, Flagship engaged Sustainalytics to review the projects funded with proceeds from the 2061 Bond and provide an assessment as to whether they met the use of proceeds criteria and reporting commitments outlined in the Flagship Group Sustainable Finance Framework.¹ Sustainalytics provided a Second-Party Opinion on the Framework in July 2021.² This is Sustainalytics' second annual review of allocation and reporting of the bond issued under the Framework, following a previous review in June 2022.³

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2061 Bond based on whether the projects:

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

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

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
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 Hopestead charitable foundation <p>Target population: People in need of housing who are listed on the housing register for affordable/social homes in the respective jurisdictions in which Flagship operates. These are individuals classified as 'low-income' as per the UK Government's definition.⁴</p>	<ul style="list-style-type: none"> • Average rent to average market rent of new homes (in %) • Number of people provided with affordable housing • Share of new lettings to low-income groups • Number 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 • Number of homeless people supported by Hopestead

¹ Flagship Group, "Sustainable Finance Framework", at: <https://www.flagship-group.co.uk/media/1madboq4/flagship-group-sustainable-finance-framework.pdf>

² Flagship Group "Second-Party Opinion Flagship Group Sustainable Finance Framework", at: https://www.flagship-group.co.uk/media/ifvbhkf/flagship-group-sustainability-bond-second-party-opinion_final_010721.pdf

³ Flagship Group, "Use of Proceeds Flagship Finance Plc - 2061 Bond", at: <https://www.flagship-group.co.uk/media/0bbn31tf/fpp-use-of-proceeds-report-march-2022-final.pdf>

⁴ Government of the UK, "How low income is measured in households below average income", at: <https://www.gov.uk/government/publications/how-low-income-is-measured/text-only-how-low-income-is-measured>

Access to Essential Services	<ul style="list-style-type: none"> Financing transformational estate improvement projects and the 'placemaking' regeneration <p>Target population: Low-income tenants who reside in the communities in which Flagship is based.</p>	<ul style="list-style-type: none"> Number of transformational estate improvement projects Land area allocated to park and recreational spaces
Socioeconomic Advancement and Empowerment	<ul style="list-style-type: none"> Providing digital training, equipment and broadband connectivity for tenants <p>Target population: Tenants who require extra support from an enablement perspective, with a focus on elderly tenants.</p>	<ul style="list-style-type: none"> Number of tenants reached by the programmes
Green Buildings	<ul style="list-style-type: none"> Investing in Flagship's existing homes to improve the energy performance certificate (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	<ul style="list-style-type: none"> 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 (in tonnes CO₂)

Issuer's Responsibility

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

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from the 2061 Bond. The work undertaken as part of this engagement included collection of documentation from Flagship and review of said documentation to assess conformance with the Flagship Group Sustainable Finance Framework.

Sustainalytics relied on the information and the facts presented by Flagship. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein 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 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 reviewed projects do not conform with the use of proceeds criteria and reporting commitments in the Flagship Group Sustainable Finance Framework. Flagship has disclosed to Sustainalytics that as at March 2023 the total amount issued of GBP 250 million has been allocated, of which GBP 200 million had been drawn.

⁵ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded with proceeds from the 2021 sustainability bond to determine if projects aligned with the use of proceeds criteria outlined in the Flagship Group Sustainable Finance Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded with proceeds from the 2021 sustainability to determine if impact of projects was reported in line with the KPIs outlined in the Flagship Group Sustainable Finance Framework. For a list of KPIs reported please refer to Appendix 2.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

Appendices

Appendix 1: Allocation

In July 2021, Flagship Group issued the 2061 Bond, raising GBP 250 million. As at March 2023, Flagship had fully allocated the proceeds to eligible projects, with GBP 150 million drawn in July 2021 and an additional GBP 50 million in January 2022. The table below provides a detailed breakdown of the allocation of net proceeds.

Table 3: Allocation breakdown by category

Use of Proceeds category	Project description	Type of expenditure	Allocation in GBP million			
			2021	2022	2023	Total
Affordable Housing	Construction of new social and affordable homes in the UK ⁶	Capital Expenditure	65.0	81.0	100.3	246.3
	Prevent, reduce and alleviate homelessness through our Hopestead charitable initiative	Operating Expenditure	-	0.6	1.0	1.6
Renewable Energy	Projects aimed at integrating renewables into the energy system for buildings	Capital Expenditure	-	5.7	6.6	12.3
Total			65.0	87.3	107.9	260.2

Appendix 2: Reported impact by eligibility criteria

Table 4: Affordable Housing

Category	Key Performance Indicators	Year ended 31 March 2021	Year ended 31 March 2022	Year ended 31 March 2023
Affordable Housing	New affordable homes completed	460	564	632
	New affordable homes in construction	362	422	836
	Affordable rent as a percentage of market rent ⁷	60%	60%	60%
	Share of new above lettings to low-income groups	100%	100%	100%
	Share of new tenancies greater than five years	100%	100%	100%
	Number of homeless people supported by Hopestead	Flagship reported impact on this indicator in its Use of Proceeds Investor report (section 3.2). ⁸		

⁶ Flagship has confirmed to Sustainalytics that the amount allocated are targeted towards people in need of housing who are listed on the housing register for affordable and social homes in the respective jurisdictions in which Flagship operates.

⁷ This is an average across the eligible asset pool.

⁸ Examples include the support of 219 households moving into their first tenancy following homelessness and the provision of additional essential items for 74 households moving from a situation of homelessness.

Table 5: Renewable Energy

Category	Key Performance Indicators	Impact achieved between April 2022 to March 2023
Renewable Energy	Retrofits added for enhancing the energy efficiency of the existing homes ¹⁰	360 air source heat pumps installed
		67 high-retention storage heaters installed
		63 properties installed with solar PV panels
		3,401 upgrade measures (includes: heat pumps, high retention storage heaters, solar PV, insulation)
		622 retrofit assessments carried out on our low-performing homes
		2,105 Switchee thermostats installed
		757 double-glazed UPVC windows installed
	1,447 thermal efficient composite doors installed	
Scopes 1 and 2 CO ₂ emissions avoided (in tonnes CO ₂)	504	

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