

# PARADIGM HOUSING GROUP 2021 SUSTAINABILITY BOND

## DNV GREEN BOND PERIODIC REVIEW 2022

### Scope and objectives

On 20 May 2021, Paradigm Housing Group (“PHG” or “Issuer”) issued a bond with ISIN: XS2339911633 (henceforth referred to as “BOND”). The nominal issuance value for the bond was GBP 350 million a retained element of GBP 100 million, with net proceeds of the issuance in May 2021 of GBP 250 million. This consisted of 80% (GBP 199.5 million) earmarked for refinancing, and 20% (GBP 50.5 million) being allocated to fund Eligible Green and Social Projects. DNV Business Assurance Australia (henceforth referred to as “DNV”) has conducted a Green Bond Eligibility Assessment on the bond using the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP) and Social Bond Principles 2021 (SBP).

PHG has used the proceeds of the BOND to finance and refinance the nominated projects and assets falling under the following categories:

#### Green Buildings:

- Investment in existing homes to improve EPC rating and energy efficiency
- Construction of homes with an EPC Rating of B or higher

#### Affordable Housing:

- Construction, purchase or upgrade of social housing or affordable housing;

#### Affordable basic infrastructure:

- Construction, purchase or upgrade of social housing or affordable housing and supporting infrastructure.

DNV has been commissioned by PHG to provide the Periodic Review of the BOND. Our criteria and information covered to achieve this is described under ‘Work Undertaken’ below. The Periodic Review was conducted on the information provided by PHG in June 2022.

No assurance is provided regarding the financial performance of the BOND, the value of any investments in the BONDS, or the long term environmental benefits of the transaction. Our objective has been to provide an assessment that the BOND has met the criteria established on the basis set out below.

The scope of this DNV opinion is limited to the Paradigm Sustainability Financing Framework v2, the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP) and Social Bond Principles 2021 (SBP).

### Responsibilities of the Management of PHG and DNV

The management of PHG has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform PHG management and other interested stakeholders in the BOND as to whether the established criteria have been met, based on

the information provided to us. In our work we have relied on the information and the facts presented to us by PHG. DNV is not responsible for any aspect of the nominated assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by PHG's management and used as a basis for this assessment were not correct or complete.

## Basis of DNV's opinion

We have adapted our Sustainability Bond methodology, which incorporates the requirements of the GBP and SBP, to create a PHG-specific Green Bond Eligibility Assessment Protocol (henceforth referred to as "Protocol"). Our Protocol includes a set of suitable criteria that can be used to underpin DNV's opinion. The overarching principle behind the criteria is that a green bond should "enable capital-raising and investment for new and existing projects with environmental benefits".

As per our Protocol, the criteria against which the BOND has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a green bond must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a green bond should outline the process it follows when determining eligibility of an investment using Green Bond proceeds and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a green bond should be tracked within the issuing organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least Sustainability Reporting to the bond investors should be made of the use of bond proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

## Work undertaken

Our work constituted a high level review of the available information, based on the understanding that this information was provided to us by PHG in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of an PHG-specific Protocol, adapted to the purpose of the BOND, as described above and in Schedule 2 to this Assessment;
  - Assessment of documentary evidence provided by PHG on the BOND and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
  - Discussions with PHG management, and review of relevant documentation;
  - Documentation of findings against each element of the criteria. Our opinion as detailed below is a summary of these findings.
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## Findings and DNV's opinion

DNV's findings are listed below:

**1. Principle One: Use of Proceeds.** PHG has used the proceeds of the BOND to finance and refinance projects and assets including:

- Green Buildings (investment in existing homes and construction of new homes with improved EPC ratings);
- Affordable Housing (Construction, purchase or upgrade of social housing or affordable housing);
- Affordable basic infrastructure (Construction, purchase or upgrade of social housing or affordable housing and supporting infrastructure).

DNV reviewed the criteria for the project categories above to determine the eligibility of the nominated projects and assets.

**2. Principle Two: Process for Project Evaluation and Selection.** The BOND's proceeds have been allocated to finance and refinance the assets as defined in Schedule 1. DNV has reviewed evidence that demonstrates that PHG regularly assesses opportunities for improvement and devises action plans and initiatives to mitigate negative environmental and social impacts from its operations.

**3. Principle Three: Management of Proceeds** DNV has reviewed evidence showing how PHG has set out to track the proceeds from the Bond, from the time of issuance to the time of disbursement. PHG commits to tracking the receipt and UOP from issuance of UOP transactions via internal reporting systems, including a register of Eligible Projects and the allocation of proceeds of UoPTs to those Eligible Projects. PHG does not intend to have any unallocated proceeds during the life of and UoPTs. PHG will maintain a pool (or pools) of relevant Eligible Projects with an aggregate value larger than the aggregate value of all relevant outstanding PHG UoPTs. As stated above, DNV provides no assurance regarding the financial performance of the Bond, the value of any investments in the Bond, or the effects of the transaction.

**4. Principle Four: Reporting.** PHG has confirmed that it will publish an Annual Report which will disclose the use of proceeds of the UoPTs and will be made available on the PHG website. This will include a summary of all UoPTs issued or drawn, Allocation Reporting for each UoPT, and Impact Reporting for each UoPT. PHG expects to include statements in our annual reporting outlining:

- the multiple by which the aggregate value of the pools of Eligible Green Projects exceeds the aggregate value of the relevant UoPTs; and
- the proportion of the total housing assets which are Eligible Green Projects.

On the basis of the information provided by PHG and the work undertaken, it is DNV's opinion that the BOND continues to comply with the Sustainability Financing Framework and continues to meet the criteria established in the Protocol and that it is aligned with the stated definition of Sustainability Bonds within the SBG, GBP and SBP.

**for DNV Business Assurance Australia**

Sydney, Australia / 15 June 2022



Mark Robinson  
Lead Assessor



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[About DNV](#)

Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

## SCHEDULE 1: DESCRIPTION OF NOMINATED ASSET FINANCED THROUGH PHG SUSTAINABILITY BOND

Data provided by PHG as at 15 June 2022.

Project Description and Eligible Category (DNV)	Eligible Green Category	Allocated Amount at June 2022
Financing and construction of new affordable homes	Green Buildings	50.5 million
Refinancing of existing investments into homes to improve EPC rating	Affordable Housing Affordable Basic Infrastructure	199.5 million
<b>Total</b>		<b>250 million</b>

## SCHEDULE 2: SUSTAINABILITY BOND ELIGIBILITY ASSESSMENT PROTOCOL

### 1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Type of bond	<p>The bond must fall in one of the following categories, as defined by the Sustainability Bond Principles:</p> <ul style="list-style-type: none"> <li>• Sustainability Use of Proceeds Bond</li> <li>• Sustainability Use of Proceeds Revenue Bond</li> <li>• Sustainability Project Bond</li> <li>• Sustainability Securitized Bond</li> </ul>	<p>Review of:</p> <ul style="list-style-type: none"> <li>- ESG Use of Proceeds List YR 2021-22</li> <li>- PHG Sustainable Financing Framework</li> </ul> <p>Discussions with PHG management</p>	<p>The reviewed evidence confirms that the BOND falls in the category: Sustainability Use of Proceeds Bond.</p>
1b	Sustainability Project Categories	<p>The cornerstone of a Sustainability Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.</p>	<p>Review of:</p> <ul style="list-style-type: none"> <li>- ESG Use of Proceeds List YR 2021-22</li> <li>- PHG Sustainable Financing Framework</li> </ul> <p>Discussions with PHG management</p>	<p>As identified by the documents provided by PHG the purpose of the BOND is to use the proceeds to finance and refinance the construction of new affordable homes:</p> <p>Green Buildings:</p> <ul style="list-style-type: none"> <li>• Investment in existing homes to improve EPC rating and energy efficiency</li> <li>• Construction of homes with an EPC Rating of B or higher</li> </ul> <p>Affordable Housing:</p> <ul style="list-style-type: none"> <li>• Construction, purchase or upgrade of social housing or affordable housing;</li> </ul> <p>Affordable basic infrastructure:</p> <ul style="list-style-type: none"> <li>• Construction, purchase or upgrade of social housing or affordable housing and supporting infrastructure.</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				DNV's assessment concluded that these assets are aligned with the categories defined in the Green Bond Principles 2021.
1c	Sustainability benefits	All designated Sustainability Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.	Review of: <ul style="list-style-type: none"> <li>- ESG Use of Proceeds List YR 2021-22</li> <li>- PHG Sustainable Financing Framework</li> </ul> Discussions with PHG management	DNV considers the Investment in existing homes to improve EPC rating and energy efficiency and the construction of new homes with an EPC Rating of B or higher as Green. DNV also considers the financing or refinancing of Affordable Housing assets and assets falling under Affordable Basic Infrastructure (servicing Affordable Housing in this case) to provide tangible social benefits to the defined target population of PHG's clients, who include people who cannot afford to rent or purchase homes on the open market in their local area.
1d	Refinancing share	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.	Review of: <ul style="list-style-type: none"> <li>- ESG Use of Proceeds List YR 2021-22</li> <li>- PHG Sustainable Financing Framework</li> </ul> Discussions with PHG management	The proceeds of the BOND, as below, will be used to finance and refinance the nominated projects assets listed in Schedule 1. The refinancing share of the investments is estimated to be 80%

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	The issuer of a Sustainability Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds. This includes, without limitation:	Review of: <ul style="list-style-type: none"> <li>- ESG Use of Proceeds List YR 2021-22</li> <li>- PHG Sustainable Financing Framework</li> </ul>	As per the PHG Sustainable Financing Framework, the issuer has set out the following criteria for project selection:  <b>2 Process for Project Evaluation and Selection</b>  "In accordance with the GLP, GBP, SLP, SBP and SBG, the Eligible Projects that will be financed or refinanced by an issuance of:



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		<ul style="list-style-type: none"> <li>• A process to determine how the projects fit within the eligible Green Projects categories identified in the Green Bond Principles;</li> <li>• The criteria making the projects eligible for using the Sustainability Bond proceeds; and</li> <li>• The environmental and social sustainability objectives</li> </ul>		<ul style="list-style-type: none"> <li>• Sustainability Bonds under this Framework will be a combination of both Eligible Social Projects and Eligible Green Projects;</li> <li>• Social Bonds or Social Loans under this Framework will be Eligible Social Projects; and</li> <li>• Green Bonds or Green Loans under this Framework will be Eligible Green Projects.</li> </ul> <p>The process for project evaluation and selection will ensure that the allocation of the net proceeds of Green Bonds, Social Bonds and Sustainability Bonds issued under this Framework and Green Loans and Social Loans drawn under this Framework will meet the criteria set out above.</p> <p>This Framework has been approved by our Board. On an annual basis, compliance with this Framework will be confirmed by our Board following a review by our Audit and Risk Committee. In addition to this governance process our Project Appraisal Group identify the categories of Eligible Projects and carry out the evaluation and selection process. The Project Appraisal Group consists of representatives from each of the following teams:</p> <ul style="list-style-type: none"> <li>• Corporate finance</li> <li>• Customer operations</li> <li>• Strategic asset management</li> <li>• Development (new build assets)</li> <li>• Governance</li> <li>• Policy/sustainability representative”</li> </ul> <p>DNV confirmed this process to define a clear and repeatable system by which projects may be identified and included or excluded from the Green Bond project pool. The Criteria making the projects eligible for inclusion contained within Appendix 2 of the Sustainable Financing Framework were in line with the GBP and SBP eligible categories and can be expected to result in quantifiable environmental benefits as set out and scheduled with KPI metrics in the Framework.</p>
2b	Issuer’s environmental and social and	In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Sustainability Bond investors may	Review of: <ul style="list-style-type: none"> <li>- PHG Sustainability Policy</li> <li>- PHG Sustainability Reporting</li> </ul>	DNV reviewed the PHG materials in addition to the Sustainability Reporting Framework for PHG.



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
	governance framework	also take into consideration the quality of the issuer’s overall framework and performance regarding environmental sustainability.	<ul style="list-style-type: none"> <li>- PHG Sustainable Financing Framework</li> </ul> <p>Discussions with PHG management</p>	<p>PHG’s commitment to sustainability form the basis for clear stakeholder reporting of relevant metrics such a GHG emissions, Energy generation, waste management, and other social and environmental metrics. The proposed reporting associated with the PHG Green Bond is in line with their existing Sustainability Reporting framework and metrics to stakeholders and investors.</p> <p>DNV notes that the performance of the nominated assets within the Bond pool is to be reported as a part of PHG’s annual reporting as per the PHG Sustainable Financing Framework.</p> <p>The selected reporting performance metrics for the nominated projects and assets as stated within the Sustainable Financing Framework, are in line with the social and environmental governance framework demonstrated by PHG within the information provided on their website.</p> <p>DNV has also carried out a high-level media review of PHG. We have found no evidence to suggest that PHG or any of the assets are or have been operating in breach of national or local environmental regulations.</p> <p>Based on the evidence reviewed and the discussion we had with senior managers, we found nothing to suggest that PHG’s environmental, social and governance framework is not in line with good practice of the industry in which it operates.</p>

### 3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure	The net proceeds of Sustainability Bonds should be credited to a sub-account, moved to a sub- portfolio	<p>Review of:</p> <ul style="list-style-type: none"> <li>- PHG Sustainable Financing Framework</li> </ul>	The evidence reviewed shows how PHG plans to trace the BOND’s proceeds, from the time of issuance to the time of disbursement.

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		<p>or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Sustainability Projects.</p>	<p>Discussions with PHG management</p>	<p>PHG intends to maintain a pool(s) of relevant Eligible Projects with an aggregate value higher than the aggregate value of the outstanding PHG UoPTs.</p> <p>The details of the disbursement and the outstanding value will be tracked in PHG's internal reporting system. At the end of each financial period, the outstanding balance of the BOND will be reviewed.</p>
3b	Tracking procedure	<p>So long as the Sustainability Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.</p>	<p>Review of:</p> <ul style="list-style-type: none"> <li>- PHG Sustainable Financing Framework</li> </ul> <p>Discussions with PHG management</p>	<p>The evidence reviewed shows that PHG do not intend to have any unallocated proceeds during the life of any UoPTs. PHG plans to track the receipt and use of proceeds from the BOND, from the time of issuance via internal reporting systems. PHG will maintain a register of eligible projects and the allocation of proceeds of UoPTs to those Eligible projects. PHG has implemented internal accounting and financial management and information systems to track and report on Eligible Green Projects and verify whether the net proceeds of the UoPTs have been fully allocated. The proceeds of each UoPT will be allocated to one or more Eligible Green and Social Projects identified in a Sustainability Financing Register.</p>
3c	Temporary holdings	<p>Pending such investments or disbursements to eligible Sustainability Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.</p>	<p>Review of:</p> <ul style="list-style-type: none"> <li>- BOND Management of Proceeds framework</li> </ul> <p>Discussions with PHG management</p>	<p>The net proceeds of the Bond will be managed within treasury or equivalent, tracked and will be fully and immediately disbursed where possible or held in equivalent green investments or cash equivalent until disbursement to the nominated assets as per the PHG Sustainable Financing Framework.</p>

#### 4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Sustainability Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.	Review of: <ul style="list-style-type: none"> <li>- PHG Sustainable Financing Framework</li> </ul> Discussions with PHG management	PHG will publish an Annual Report which will disclose the use of proceeds of the UoPTs and will be made available on their website. This will include a summary of all UoPTs issued or drawn, Allocation Reporting for each UoPT, and Impact Reporting for each UoPT. PHG expects to include statements in our annual reporting outlining: <ul style="list-style-type: none"> <li>• the multiple by which the aggregate value of the pools of Eligible Green Projects exceeds the aggregate value of the relevant UoPTs; and</li> <li>• the proportion of the total housing assets which are Eligible Green Projects.</li> </ul>