

Sustainability Framework Alignment Opinion

Retail Charity Bonds PLC's Sustainability Bond Framework

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Sustainability Bond Framework Overview

In our view, Retail Charity Bonds PLC's (RCB's) sustainability bond framework, published in June 2021, is aligned with the four components of the Green Bond Principles 2018 (GBP) as well as four components of the Social Bond Principles 2020 (SBP), collectively referred to Sustainability Bond Guidelines. RCB is an independent special-purpose vehicle established by Allia. It was created to issue bonds that finance charities in the U.K. RCB issues bonds listed on London Stock Exchange and available to institutional and retail investors.

Framework Alignment Overview



1. Use of proceeds

RCB's sustainability bond framework is aligned with this component of the Principles. The proceeds of bonds issued by the company under the framework are committed to eligible green and social projects, to provide financing to charities in the U.K. Eligible loans exclusively belong to categories defined by the GBP and SBP.



2. Process for project evaluation and selection

RCB's sustainability bond framework is aligned with this component of the Principles. The company's review committee is responsible for screening eligible borrowers against eligibility criteria and make a recommendation to the board. The board is responsible for selecting financing under the framework.



3. Management of proceeds

RCB's sustainability bond framework is aligned with this component of the Principles. Allia C&C, a financial services firm within the Allia Group, is responsible for managing the eligible loans provided by RCB. The company will create a dedicated bank account for each series of bonds. Net proceeds will be allocated to the beneficiary according to the loan agreement between RCB and the charity. Each bond series will finance a single charity.



4. Reporting

RCB's sustainability bond framework is aligned with this component of the Principles. Allia C&C, on behalf of RCB, will provide an annual report covering all outstanding issuances under the framework. Each report will disclose the amount and the charities where proceeds have been allocated, a description of the green or social activities funded by the loans, and the expected or actual impacts.

Issuer Sustainability Objectives

RCB was established by Allia to support the financing of charities in the U.K. Its corporate objective is limited to issuing debt and lending the proceeds to eligible charities, making it affordable for the borrowers to raise relatively small amounts in capital markets. RCB supports its borrowers to expand and achieve a greater social and environmental impact.

Allia Group supports start-ups, small businesses, and impact ventures to develop and grow. The group provides support to ventures in the form of mentoring and incubator programs, as well as social financing through Allia C&C, the group's financial advisory and arrangement services firm.

Framework Description

1. Use of proceeds

The Principles stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green and social projects respectively. According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives, including: 1) climate change mitigation, 2) climate change adaptation, 3) natural resource conservation, 4) biodiversity conservation, and 5) pollution prevention and control. According to the SBP, following eligible project categories capture the most common social issues: 1) affordable basic infrastructure, 2) access to essential services, 3) affordable housing, 4) employment generation, and programs designed to prevent and/or alleviate unemployment, 5) food security and sustainable food systems and 6) socioeconomic advancement and empowerment.



We regard RCB's sustainable bond framework to be aligned with the use of proceeds component of the GBP and SBP. The proceeds of bonds issued under the framework are committed to eligible green and social projects, to finance loans that exclusively belong to categories defined by the GBP and SBP. Beneficiaries must be either a registered or exempt charity.

The three eligible green categories stated in RCB's sustainable finance framework meet at least one of the GBP's environmental objectives. Financing green building projects (such as the construction of buildings with recognized environmental certification and refurbishment of existing buildings) and installation and maintenance of solar and wind renewable energy sources, both contribute to climate change mitigation objectives. And the third green category of conservation of the natural environment contributes to the objectives of natural resources and biodiversity conservation.

The five eligible social categories stated in RCB's sustainable finance framework meet social objectives in line with the SBP. Social loans eligible under the framework must support activities associated with affordable housing, health care and care services, culture and natural heritage, education and training, or investing in disadvantaged communities.

RCB's eligible social categories aim to support specific target populations in the U.K. Some of the groups eligible under the social categories are individuals living below the poverty line, excluded or marginalized populations or communities, and people with disabilities.

2. Process for project evaluation and selection



To align with the second component of the Principles, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects, including exclusionary criteria, if applicable, and the overall sustainability objectives that underpin the selection process.

We regard RCB's sustainable bond framework to be aligned with the process for selection and evaluation component of the GBP and SBP. The company's sustainable bond framework outlines its process to identify and approve green and social projects.

Charities seeking financing are requested to fill a "social, green and sustainable bond assessment" questionnaire, including the organization's mission, a summary of core activities, and a description of the intended use of the funds. RCB's review committee will review each application and screen it against eligibility criteria to make a recommendation to the company's board, which is responsible for approving borrowers and giving the go-ahead to the bond issuance. Each issuance is dedicated to a single charity, and the bond documentation will disclose information about the relevant charity, the eligible activities, and anticipated social or environmental benefits.

Charities financed under the framework must be registered charities under the Charities Act 2011 or classified as an exempt charity under Schedule 3 of the Charities Act 2011. Financing must also comply with the specific requirements of the applicable green or social category:

- Eligible loans for green buildings include residential and commercial properties classed at B or above according to the U.K.'s Energy Performance Certificate (EPC). They also include commercial properties with BREEAM certification of "very good" and above, or comparable building certification.
- Eligible loans for affordable housing must follow local official definitions and governmental programs.
- Activities financed under care and health care services must fulfill quality criteria.
- Activities funded for investments in disadvantaged communities must meet criteria against national averages such as the index of multiple deprivation, gross value added per head, and proportion of young people not in education.

3. Management of proceeds



The Principles require a seeker of finance to monitor the net proceeds of all outstanding green and social bond transactions, which includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green and social projects. The Principles also require a seeker of finance to disclose to investors the intended types of temporary placement they intend to use for unallocated proceeds.

We regard RCB's sustainable bond framework as aligned with the managements of proceeds component of the GBP and SBP.

The company will create a dedicated bank account for each series of bonds. After receiving the full payment of the series of bonds, RCB will transfer the net amount of the proceeds to the beneficiary in accordance with the loan agreement between the company and charity. The full allocation of proceeds is defined and disclosed in advanced under the bond documentation, and there will be no unallocated proceeds.

RCB will ensure that the funds will be allocated to eligible projects via covenants in the loan agreements and reporting requirements. It has a service agreement with Allia C&C to monitor and manage the loans outstanding, there will be only one loan for each bond series.

4. Reporting



The Principles stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental and social impacts.

We regard RCB's sustainable bond framework as aligned with the reporting component of the GBP and SBP.

On the company's behalf, Allia C&C will prepare an annual report covering all issuances outstanding under the framework. Each report will disclose the details and identifiers for the relevant series, the amount and charities where the proceeds have been allocated, and a description of the green or social activities funded by the loans. In addition, although each series of bonds will finance new loans, RCB will report on the portion of the loan (if any) the charity uses for refinancing projects.

The company will report on the expected environmental and social impacts of the projects as well as actual impacts when available. The calculation methodology and assumptions will be disclosed in the report.

RCB's report will be available on RCB's website and the market will be notified by an announcement via Regulatory News Service.

Additional Features Of The Framework

This section of the report provides additional information on whether the framework incorporates recommended aspects of the Principles and goes beyond minimum requirements. This section does not impact on our alignment opinion with the stated principles.

RCB's sustainability bond framework follows the voluntary guidelines provided by the Principles. In some cases, the framework goes beyond the requirements of the Principles. The key strengths of the framework are as follows:

- RCB will report on the portion of the loans (if any) the charity uses for refinancing projects.
- The company commits to disclose the underlying methodology and assumptions used to measure the expected and actual quantitative impact indicators of the eligible loans.
- The Framework sets a minimum level of certification for eligible green building loans. RCB requires green buildings to be (1) classed at B or above according to U.K.'s Energy Performance Certificate (EPC), or (2) commercial properties with BREEAM certification of "very good" and above or (3) certified under a comparable building certification.

Offsetting the above strengths are the following:

- RCB does not commit under its framework to seek assurance from an independent third party on its annual reporting.
- The company does not disclose the lists of core indicators for measuring the environmental and social impact of the financing. However, S&P Global Ratings notes that impact indicators will vary, depending on the charity that is being financed.

Conclusion

Based on our assessment of the contents of RCB's sustainability bond framework, we regard this framework as being aligned with the four components of the Principles, given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of bonds to eligible green and social projects, as defined by the seeker of finance;
- Use clear green and social criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Commit to regular reporting of the environmental and social impact and use of proceeds.

Mapping To The UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set up by the United Nations in 2015 and form an agenda for achieving sustainable development by the year 2030. We use the International Capital Market Association (ICMA) SDG mapping for this part of the report. We acknowledge that the ICMA mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

The RCB sustainable bond framework intends to contribute to the following SDGs:




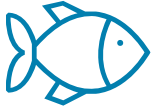







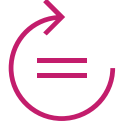
Use of proceeds

SDGs

Access to essential services



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	*3. Good health and well-being	*4. Quality education		
<i>Affordable housing</i>				
	*1. No poverty	3. Good health and well-being	*11. Sustainable cities and communities	
<i>Environmentally sustainable management of living natural resources and land use</i>				
	*14. Life below water	*15. Life on land		
<i>Green buildings</i>				
	*11. Sustainable cities and communities	13. Climate action		
<i>Renewable energy</i>				
	*7. Affordable and clean energy			
<i>Socioeconomic advancement and empowerment</i>				
	*1. No poverty	3. Good health and well-being	*8. Decent work and economic growth	*10. Reduced inequalities

*We could link the eligible project categories to those SDGs based on the ICMA mapping

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