

Sustainable Finance Framework

2023

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Introduction from the Chief Executive: Sustainability at Midland Heart

As one of the Midlands' leading housing associations, Midland Heart is committed to delivering decent, safe, and secure homes that are warm and comfortable and enable our customers to live independently. We also never forget that we are dealing with something sacred; people's homes, the place where they should feel safest and where they can raise the next generation.

In the UK, the residential sector contributes around 16 per cent of all greenhouse gas emissions¹. The government has committed to reaching net zero carbon emissions by 2050 and Midland Heart is fully supportive of this ambitious target. As a provider of around 35,000 homes across the Midlands, we have a key role to play. To help do this, we are not only delivering some of the first homes in the UK built to the Future Homes Standard through Project 80, but we are also delivering a significant retrofit programme to both improve the energy efficiency of our stock and to reduce the cost of energy bills for our customers. Affordable housing will be defined by a customers' ability to heat their home as well pay their rent.

Under our corporate plan Making What Matters Brilliant, alongside our wider strategic objectives, we have made low carbon a key priority. We were delighted to publish our Carbon Reduction Plan, which focused on reducing the impact of every aspect of the organisation on the environment. As our strategy has developed and to make sure that we have a rigorous and transparent way of recording our journey to net zero carbon, we signed up as an early adopter

of the 'Sustainability Reporting Standard for Social Housing' and were one of the first housing associations to publish an ESG report.

This Sustainable Finance Framework ('SFF') builds on our vision for everyone to have a decent home they can afford, and our commitment to sustainability. The current economic turmoil compounded by new political realities for housing associations paints a picture of reduced financial capacity, leading to Boards having to make inevitable, competing investment choices.

We are fortunate that years of prudent financial management have left us in a strong financial position. This gives us a strong platform to address the challenges that carbon neutrality presents, as well as deliver the new homes, and retrofitting of existing homes that our customers expect.

Glenn Harris
CEO

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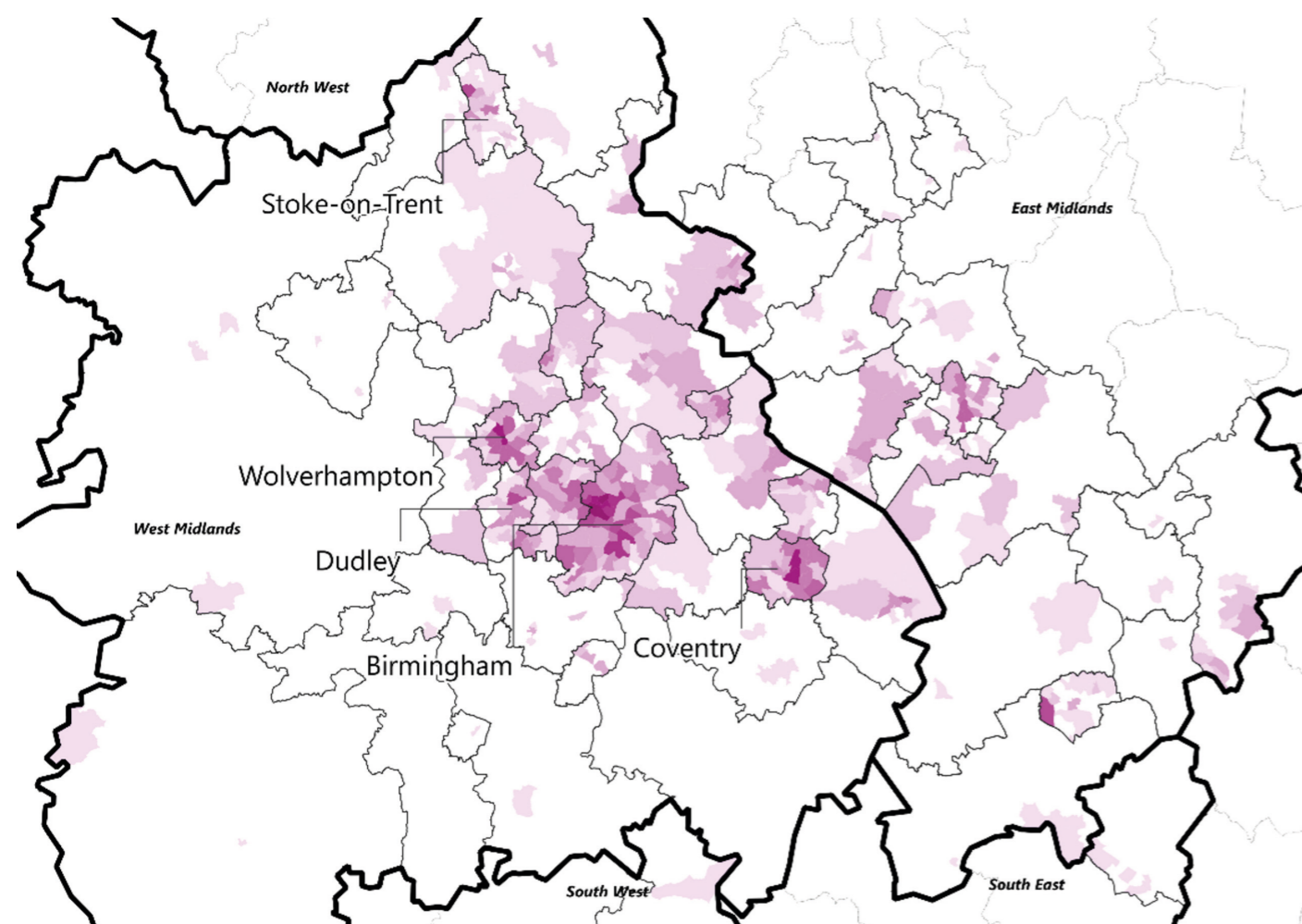
¹2021 UK Greenhouse Gas Emissions, Final Figures – published 07 February 2023 – Department for Business, Energy & Industrial Strategy
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1134664/greenhouse-gas-emissions-statistical-release-2021.pdf

Section 1: About us

1.1 What we do

Founded in 1925, Midland Heart is a housing association, committed to delivering homes and services across the Midlands that enable people to live independently. We own and manage around 35,000 homes, making us one of the largest housing associations in the region and the country. We are dedicated to providing high quality, safe and affordable homes, combined with

excellent services to our over 70,000 customers. These homes include general needs housing for people and families that need an affordable home, retirement living schemes for people who are over 55 years of age, and supported living schemes for people who need a bit of extra support to live independently.



Midland Heart is committed to its founding charitable aims and to its focus on delivering:

- **Core landlord services:**
Delivering a high-quality landlord function, with limited market sales development plans.
- **Building affordable homes:**
Aiming to grow, modernise and concentrate our asset base through an ambitious new-build programme alongside strategic stock acquisition and disposal.
- **Net zero by 2050:**
Committing to our ESG agenda and an early adopter of ESG and pay equality reporting.

Our corporate plan is driven around five key objectives, which creates **Making What Matters Brilliant.**

MAKING WHAT MATTERS Brilliant



INVESTING IN HOMES

Investing in our homes is our customers' number one priority and will sit at the centre of everything we do.



SERVICE FIRST

Our customers have told us they expect a first-class service. We will ensure our services are responsive and we get things right first time.



GROWTH & PARTNERSHIPS

The Midlands needs more affordable homes. We are committed to building as many as we can over the next six years.



SAFE & STRONG

We will remain financially strong and maintain our focus on safety. We will spend money wisely, investing in the things that matter most to our customers.



PEOPLE FOCUSED

We want to be a truly great place to work and build your career. We will retain and attract the right people by rewarding, recognising and growing our colleagues.

Low carbon is a key priority of MWMB. We are focused on reducing our carbon emissions across three key themes:

- **The homes we rent**
- **The homes we build and;**
- **The way we work.**

By focusing on these key themes, we ensure that our ESG reporting covers all areas of the business and how we are working across the piece to maximise impact on our homes, our customers and our staff.

1.2 Our journey to net zero

Housing continues to be a key focus, with the Government’s need to address the significant challenges of living conditions across the sector, meeting the need for new homes and building more affordable housing. The net zero challenge has not gone away; decarbonising the economy, retrofitting existing homes and building new energy efficient homes remain significant challenges.

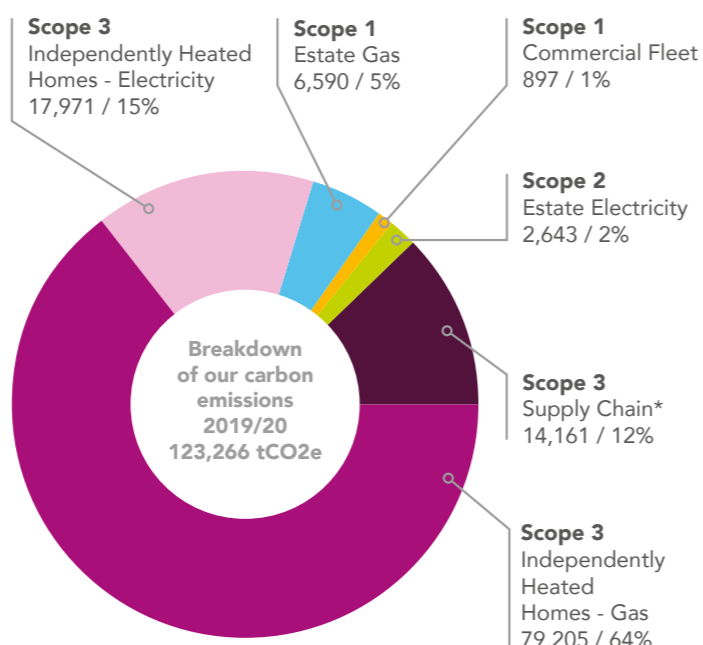
Under our corporate plan **Making What Matters Brilliant** we have made ‘low carbon’ a key priority. In 2021 we completed an exercise to understand and develop our strategic commitment to tackle the issues of climate change and our environmental impact.

The outcome of the exercise was our strategic **Carbon Reduction Plan** targeting:

- EPC D or above on all our homes by 2025
- EPC C or above on all our homes by 2030
- Net zero carbon emissions by 2050

Our Carbon Reduction Plan develops a holistic approach to reduce our carbon emissions and build resilience against climate change in *the homes we rent, the homes we build and the way we work*.

Between 2021 and 2022 we set about embedding our plan, using 2019-20 as a baseline and reporting our figures with enhanced data and a market-based approach. Aligned to a Paris-proof methodology, we are required to reduce our overall Scope 1, 2 and 3 greenhouse gas emissions by over 97% by 2050. Crucially we have also defined what net zero looks like in the homes we rent, the homes we build and the way we work. Making 2050 a more tangible target that we can work towards today.



In 2023 we published our third ESG report, aligned to the ‘Sustainability Reporting Standard for Social Housing’ (SRSSH). It includes elements of the Task Force on Climate-Related Financial Disclosures (TCFD) scheme and evaluates our progress with the embedded, SRSSH aligned, United Nations (UN) Sustainable Development Goals (SDGs). We also continued our commitment to Streamlined Energy & Carbon Report (SECR) disclosures within our annual Financial Statements.

We appointed SHIFT, an external environmental consultant specialising in the social housing sector. This has enabled us to focus on our environmental performance, including the breadth and depth of the data we capture and analyse, and how we measure, evaluate, and validate our progress. In 2023 we were awarded a rank of 13th of the latest 40 peer assessments of environmental performance

in the sector. Our SECR carbon emissions reporting and ESG report contains data that has been validated by SHIFT, improving the quality, reliability, and accuracy of our reporting, and providing external assurance.

We established and delivered a series of pioneering pilot studies to understand what the homes of the future look like in the homes we rent and the homes we build, through our Havendale Close net zero retrofit, Demand Side Response (DSR) and Project 80 programmes. See our case studies for more details.

Ultimately this has put us in a strong position to understand our transition to a low carbon future.

Greenhouse Gas (GHG) Protocol Scopes

Scope 1 activities	Scope 2 activities	Scope 3 activities
Purchased natural gas consumption in schemes and office spaces Commercial vehicle fleet fuel consumption Fugitive emissions	Purchased electricity use in schemes and office spaces	Transmission and distribution losses Business travel Employee commuting Employee homeworking Commercial waste disposal Water use and water treatment *Key suppliers by spend in the supply chain Independently heated homes

Our Carbon Reduction Plan

Set corporate targets: EPC D 2025, EPC C 2030 and net zero carbon emissions 2050

Established key themes: the homes we rent, the homes we build and the way we work

Formed a governance framework through our ESG Committee with Executive ownership

Committed to transparency through reporting

Making it Tangible

Re-baselined our emissions Scopes & activities

Defined what net zero looks like in the homes we rent, the homes we build and the way we work

Aligned our net zero trajectory with ‘Paris Proof’ Science Based Targets

Brought in external validation for reliability and accuracy

Organisational Resilience

Tested learnings through pioneering pilot studies to understand the homes of the future

Workshopped the cost of net zero and medium-term targets for our strategy to 2030

Built resourcing capacity

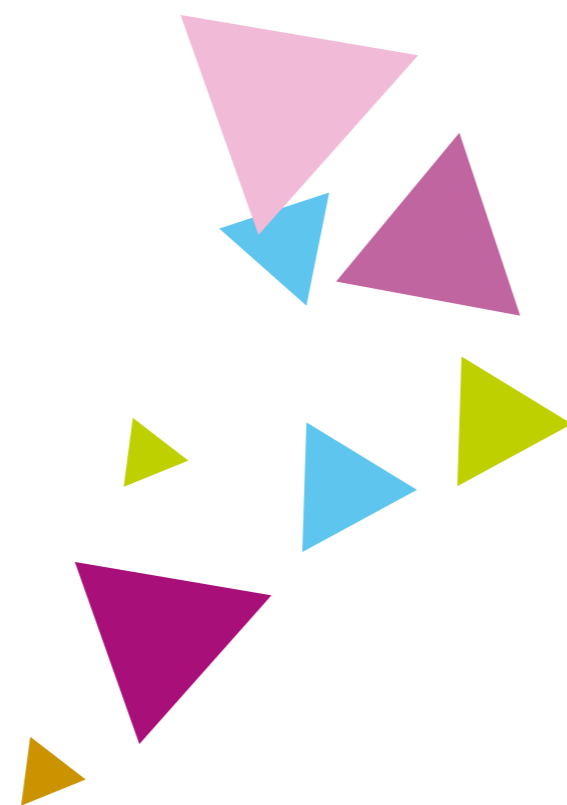
Aligned action plans & workstreams

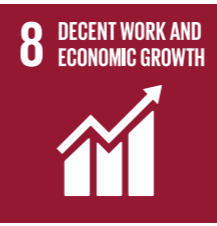






1.3 Embedding the United Nations Sustainable Development Goals

At Midland Heart, not only are we committed to meeting our Environmental, Social and Governance (ESG) responsibilities, we know the importance of, and support the UK housing sector having a consistent way of reporting on performance and priorities.

That's why we signed up as an early adopter of the SRSSH soon after it was launched in November 2020 and have committed to it again in our latest ESG report. The SRSSH provides a voluntary framework for housing providers to report on their (ESG) performance transparently and consistently. This facilitates the monitoring of the ESG performance of housing providers by lenders and investors. It also assists with the identification of ESG risks and opportunities where positive social and environmental outcomes can be actioned..

Through the SRSSH framework we have adopted and are working towards the UN's Sustainable Development Goals (SDGs) essential to social housing. We've committed to contributing to seven of the UN's SDGs.



SDG Goal	SDG Target	Midland Heart alignment
 8 DECENT WORK AND ECONOMIC GROWTH	8.5	We target the highest possible rating from the Regulator for Social Housing during our In-Depth Assessment (IDA), a G1 V1 (Governance and Viability rating) as well as retaining our sector leading credit rating from Moody's. As a major regional employer, we have publicly disclosed our gender and ethnicity pay gaps, with development programmes to support inclusive employment regionally.
 10 REDUCED INEQUALITIES	10.1 10.2	We support some of the lowest income households regionally with our Money Advice Team securing £2.5m in income maximisation for customers in 2022 alone. We have empowered our employees and local communities through the new trade apprenticeship programme. As part of our work as an inclusive employer we have grown our diversity and inclusion networks and championed women and black colleagues in senior roles.
 11 SUSTAINABLE CITIES AND COMMUNITIES	11.1 11.3	One of the key objectives of our corporate plan is to develop 4,000 new homes over the six-year period to 2025. We also became a strategic partner with Homes England on the new Affordable Homes Programme (2021-26) that will provide £90m in grant funding ending in March 2026. We have worked closely with our development partners to deliver energy efficient homes, the majority of which are at EPC B or above.
 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.5 12.6 12.7	Our new Sustainable Procurement Framework ensures that suppliers on major tenders are subject to questions around sustainability and social value, building on the integration of the ESG SRSSH framework into our operations and supply chain.
 13 CLIMATE ACTION	13.2	We regularly measure and disclose our total carbon emissions each year in our reporting and in alignment with Science Based Targets. We are committed to investing in our homes to reduce our largest source of carbon emissions and build climate change resilience within our housing portfolio. Ensuring net zero means, comfort, energy affordability and energy security.
 15 LIFE ON LAND	15.5 15.9	Working with our environmental consultant, SHIFT, we have been able to calculate the biomass value of our estates, where we manage the grounds maintenance provision. Our tonnage of biomass will be measured and monitored regularly to ensure that we are protecting and positively enhancing green space and biodiversity where available.
 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	16.6	We ranked 8th, 24th and 50th for best housing, regional and large UK places to work respectively through Best Companies 2022. We also ranked 24th on the national top 50 Inclusive Employers listings. We effectively measure and respond to customer satisfaction and feedback, achieving a consistently high satisfaction level over the last three years.

1.4 Our commitment to ESG governance

We are committed to the principles of good corporate governance and achieving high standards of business integrity, ethics and professionalism in everything we do. Our code of conduct sets out the values we expect of ourselves and will uphold when at work, from frontline colleagues to committee and Board members.

To provide our stakeholders with assurance, Midland Heart has adopted the National Housing Federation's (NHF) 2020 code of governance to assess our governance practices.

The Board has recently reviewed performance against the code and confirmed compliance with all of the provisions.

Our 2020-2025 corporate plan, **Making What Matters Brilliant** puts our customers, homes and communities at the centre of everything we do. It aligns elements of organisational strategy and puts low carbon as a key priority of our organisation.

To drive low carbon and our commitment to ESG, alongside the Carbon Reduction Plan and net zero target by 2050, we also formed our ESG Committee to provide the governance needed to achieve our commitment..

The ESG Committee is chaired by our Executive Director of Finance & Growth and includes two other Executive Directors. Convening on a bimonthly basis, it hosts strategic senior leaders from across workstreams central to our journey to net zero, providing a platform to generate ideas, evaluate performance and define strategy, placing a key focus on our progress towards key corporate targets; EPC D by 2025, EPC C by 2030 and net zero 2050.

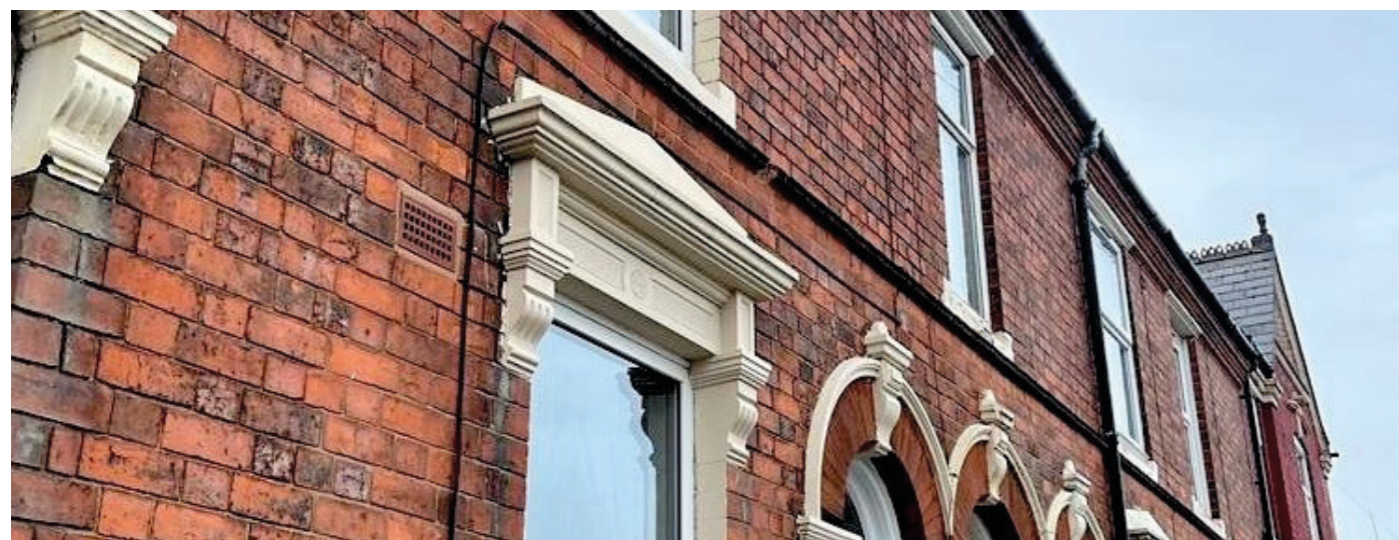


1.5 Looking beyond deep retrofit

Deep retrofit can sometimes be expensive and reduce the number of properties that we can include in our long term retrofit programmes. By taking an incremental approach to retrofit and looking beyond 2030 to what we understand 2050 will look like, we can impact more homes and know that each measure is helping make them 'net zero ready'.

We have navigated the complex budgetary requirements for funding retrofit by combining our 'green' and 'repairs' budgets and utilising existing and pipeline grant funding availability to supplement the incremental programme.

This new and unique focus on looking beyond deep retrofit has already enabled us to establish two innovative solutions.



In December 2022, we completed our first innovative triple glazing installation.

In partnership with Lutley Windows and REHAU we have collaboratively developed a 0.8 uValue triple glazing solution with 72mm frames and 'drainage caps' which will sit comfortably over any future or existing External Wall Insulation (EWI) or Internal Wall Insulation (IWI). The frames and drainage caps will allow water to drain away safely without breaching any EWI. Typical double-glazing windows have less than half the efficiency of these units.

This industry and domestic housing first mean our properties are receiving energy efficient triple glazing part of 'business as usual' that pre-empts any EWI works required to get each home to net zero.

Following an installation of five windows, our first EPC SAP 53 (rating E) property achieved a score of 70 (rating C), 7 years ahead of our 2030 deadline. Saving an approximate 1.5 tonnes CO₂e each year.



100 homes 're-roofed' every year means over 100 opportunities to get our homes fit for purpose beyond 2030

Each year over 100 of our homes are to be 're-roofed' to ensure they remain warm and dry. Re-roofing works can require extensive scaffolding and the nature of the works mean that the roof can be exposed for a period. To minimise this exposure, we are combining additional retrofit measures to future-proof of our existing programme. For example:



Oversailing our roofs to allow enough overhang for EWI to be safely and securely installed on the surrounding external walls, preventing the cost and time for future oversailing works impacting the installation of EWI.



Topping up loft insulation to 400mm, where possible, to pre-empt future standards and maximise energy efficiency and SAP scoring for our customers.



Embedding solar PV in the new roofs, utilising scaffolding and the project timeframe to fit panels in the roof and start to provide net zero energy at no cost to the resident.

At our Wolverhampton homes, through solar PV panels alone, we are now meeting our minimum EPC target, with the majority moving from EPC D to EPC B following the works, ahead of our EPC C 2030 target.



"I've been trying to be more mindful of little ways to cut energy costs, like not filling kettle right up. When I was told I'd be getting solar panels fitted, I thought that's cool – you hear about them on the news and how much better they are for the planet. I didn't know much about them at first, but the team were lovely and answered any questions I had. I think it's a great thing for Midland Heart to be doing, as it will help cut my costs too in the long run – plus they look really smart now they are finished!"

Re-roofing customer



1.6 Building self-resilience to deliver on net zero retrofit

We are continuously reviewing and improving our workplace specialisms and capabilities to deliver our net zero carbon retrofit programme.

Through increased training and recruitment of new talent, the immediate retrofit delivery team now has 18 EPC DEA assessors with the training of a further three Level 5 Retrofit Coordinators and two more EPC DEA assessors in process. The team has also embedded a Chartered Architectural Technologist (MCIAT) and Green Deal Assessor (GDA) to lead on the net zero carbon retrofit delivery programme. They are supported by others across the business, including our National Energy Action (NEA) City and Guilds Level 3 energy awareness trained tenant engagement operatives and our new strategically focused Head of Sustainability.

1.7 Using smart storage heaters to make a smarter and greener electricity grid

In 2021 we signed a memorandum of understanding with British Gas giving us greater buying power in meeting the resourcing and skills challenge at scale, specialist knowledge in understanding modern technologies as well as help with navigating a complex grant funding regime. For British Gas it is an opportunity to test the use of lower carbon solutions as part of its ambition to help customers and the UK energy infrastructure be net zero carbon by 2050.

In coordination with Centrica, the parent company of British Gas, and Glen Dimplex we have rolled out over 500 smart storage heaters, equivalent to 1 Mega Watt of power, across affordable housing, supported living and retirement living schemes in the West Midlands. The first large domestic trial to test how smart storage heaters can be used to help balance demand on the National Grid.

The pioneering trial will run for between 1 and 3 years and use a more sustainable approach to energy usage, called Demand Side Response (DSR). DSR capability will respond to changes in demand on the National Grid, charging and releasing heat at off-peak times, helping to stabilise the electricity supply, keeping people warm and the lights on in their homes.

We are providing a low carbon, maintenance free and easy to use heating system that can ensure our customers' comfort whilst reducing their bills and combatting fuel poverty.



Havendale Close net zero retrofit pilot

As part of our strategic relationship with British Gas we completed a pilot intervention at our Havendale Close properties, successfully raising EPC ratings ranging from between EPC band E (41-43 SAP points) to EPC band B (84-86 SAP points) through the following interventions:

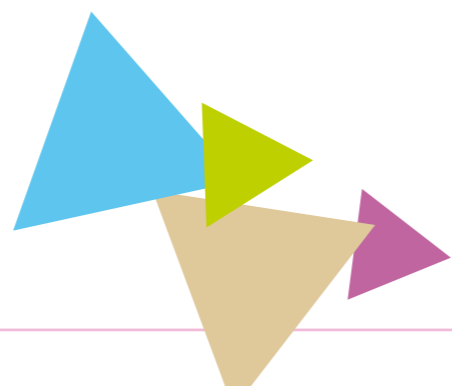
- Insulation and ventilation
- Air source heat pumps
- Hot water cylinders
- Low temperature hot water radiators
- Solar PV micro-generation
- HIVE demand response, the first of its kind in a UK domestic home.

These technologies are optimised by smart HIVE software and sensors. It is estimated that Havendale Close has achieved a reduction in annual carbon emissions from 4.3-4.6 tonnes to 1.3 tonnes per home.

Since our first Havendale Close homes were completed, we have fitted competing net zero technologies in another group of Havendale Close homes, including DSR ready storage heaters.

“I am very happy with the works that have been done. It feels lovely to have a nice new heating system as my house was previously very cold and draughty. I would recommend this heating system to others and I hope in the long run I save money.”

Havendale Close tenant



1.8 Project 80: The homes of the future

A standard development features:



A mixture of 2, 3 and 4 bedroom houses



Waste water heat recovery



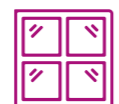
Newly planted shrubs, trees and lawns



Air source heat pumps



Photovoltaic panels



High standards of insulation and modern double-glazed windows and doors



The UK has set a legally binding target to bring all its greenhouse gas emissions to net zero by 2050. Construction is a big contributor to this, so the Government will introduce new Building Standards, known as the Future Homes Standard, in 2025.

We have built the UK's first homes to meet the Future Homes Standard, four years ahead of the legal requirement. The average home will have 80% less carbon emissions against current building standards and have reached EPCs up to 100+.

We have already handed over the keys to our first new customers. As some aspects of living in these homes are different, we have provided user guides and are gathering tenant feedback to understand the impact of living in these new, more thermally efficient, and sustainable homes. We are working in partnership with Birmingham City University (BCU) on this crucial piece of the project. A report was launched in 2023, in collaboration with BCU, to share the results of our ongoing analysis. You can find the report here:

[Birmingham City University Report](#)



Winner of the Social Housing Award at the Insider's Midlands Residential Property Awards 2022



Winner of the Energy project of the Year (Residential) at The Energy Awards 2022



Winner of the Sustainability Award CABE Built Environment Awards 2022



Winner of the Best Use of an Emerging Technology in Housebuilding Housing Digital Innovation Awards 2023



Winner of the Sustainability Award at the Constructing Excellence West Midlands Awards 2023

1.9 Promoting tenant voice

As we collect and share the new Tenant Satisfaction Measures, designed to assess how well landlords are meeting the expectations of tenants, it is more important than ever to keep an open dialogue with our tenants and communicate the ways we are working to make their lives better. We have a strong commitment to listening to our tenants' voices, helping us to learn what is important to them, where we are doing things right and where there may be room for improvement.

Our 'My Voice' framework is a way that tenants can get involved and have a direct impact on the services we offer. It enables tenants to give us feedback and work closely with our Customer Scrutiny Team, who will make sure that their views are listened to and changes are made.

'My Voice' provides a number of opportunities for informed feedback, mainly through activities or experiences covering our services or a particular topic, such as special interest groups, tasks or service improvement activities. From mystery shoppers to consultations, doorstep chats to becoming champions or joining committees.



1.10 Celebrating placeshaping through our intervention programme

Some of our properties and their local communities are subject to conditions that degrade their environmental and social value over time. Our intervention programme is designed to positively shape our schemes and their neighbourhood to restore and promote sustainable communities.

We are coming to the end of a 4 year intervention programme, giving us an opportunity to look back at the programme and its successes in making our spaces safe, sustainable and appealing places to live.

The programme initially set out to improve 150 schemes for our customers. Going into the final year of the programme we have completed interventions at 120 schemes. We have invested

over £4.5million on intervention and efficiency measures and are dedicating additional non-financial resources to these neighbourhoods, such as increased patrols from our Rangers.

We are making our spaces a better for the environment and safer for our customers by clearing away litter and bulky waste. We have set up campaigns in collaboration with local authorities and the police to educate customers on the need to separate waste effectively and report fly tipping.

We are also making our waste facilities more accessible and increasing the ability of residents to recycle more waste.

Our LED bulb replacement programme has installed efficient lighting at over 60 of our schemes. We are using a similar approach on our intervention schemes to increase lighting levels efficiently to make our buildings and external spaces such as car parks, connecting pathways and bin stores, safer and reduce the potential for crime.

We have invested in improvements to the appearance of our properties, recognising that we need to keep our buildings modern and appealing whilst maintaining the heritage of the local spaces.

To prevent crime, we have worked with the police and our team of Rangers to increase neighbourhood presence and opportunities to report crimes or concerns, meanwhile new permanent or temporary CCTV provision keeps a visible 24-hour presence. We have also fitted new doors and entry systems to provide a feeling of safety and security to our customers.

Ultimately, we have shaped our places to positively enhance our neighbourhoods. Supporting customers to sustain their tenancies and enabling them to live independently, is a contributing factor towards delivering balanced communities.

84% of customers are satisfied with the safety and security of the building they live in, an increase of 34% compared to the baseline survey.

86% of customers would recommend living at the scheme an increase of 31% compared to the baseline survey.

1.11 Developing our people

A key part of our talent strategy is to invest in developing our own people.

We were one of the first housing associations to publish a Gender Pay Gap report and we have recently published our first Ethnicity Pay Gap report as part of our commitment to be transparent on pay gap information and actions to narrow these gaps.

Through our work on the Gender Pay Gap and Ethnicity Pay Gap, we recognised the need for greater representation of women and black colleagues in senior roles. One of the initiatives to tackle this was the launch of two colleague development schemes for high performers from across the business and at different levels of seniority who were ready for career progression.



We have launched our 'Women's Network' which has spearheaded a review of our family friendly policies to ensure all colleagues can balance work and home responsibilities in a way that suits them.



Our apprenticeship programme enables us to develop our staff with the skills that will help us create a workforce capable of delivering on the corporate plan objectives.

Our initial cohort of six degree apprentices are performing to a high standard so we have expanded the programme. We recognise the benefits of, and are committed to, investing in talented young people as a means of developing the critical skills we will need for the future success of our business.

We have also started a trade apprenticeship programme to ensure a robust pipeline of talent in a competitive market. We will recruit 24 apprentices over the next three years to our in-house maintenance team, with the first cohort having already started on the programme.



Awarded Best Health and Wellbeing Initiative, at the CIPD People Management Awards 2022 for our focus on supporting key workers in a pandemic and post pandemic environment.

1.12 Regulatory Framework for Affordable Housing

We are a registered provider of social housing. This means we must comply with the regulatory framework set out by the Regulator of Social Housing (RSH); an executive body established by the UK government.

The 2015 regulatory framework⁵ for social housing in England comprises of:

- Regulatory requirements – including the 'rent standard' for social and affordable housing and consumer standards for the provision of housing services
- Codes of practice – assisting registered providers as to how compliance may be achieved
- Regulatory guidance – providing explanatory information on the regulatory requirements and on how the regulator will carry out its role.

The standards within the regulatory framework are classified as either 'Economic' or 'Consumer' and are in place to ensure that landlords meet the specific expectations set out. There are three economic standards and four consumer standards.

Economic standards

- Governance and viability standard
- Value for money standard
- Rent standard

Consumer standard

- Home standard
- Tenancy standard
- Neighbourhood and community standard
- Tenant involvement and empowerment standard

The RSH issues regulatory judgements which give an indication on how well providers are meeting the standards as outlined above. We target and achieved the highest possible rating from the regulator during our In-Depth Assessment (IDA), a G1 V1 (Governance and Viability rating) as well as retaining our sector leading credit rating from Moody's.

1.13 Rationale for Sustainable Finance Framework

The establishment of this Sustainable Finance Framework aligns our social purpose and low carbon strategy with our funding and financial strategy. We have selected a number of eligible areas which are fundamental elements of our business model and deliver the most positive societal and environmental impacts.

We support the drive toward the United Nations' Sustainable Development Goals (SDGs), and we will be able to make a notable contribution to the overall achievement of the SDGs by increasing the value we create for communities and the environment by aligning our strategy with them.

It will not be possible to achieve our ambitious goals in isolation, and so we seek to engage and collaborate with all our stakeholders including tenants, employees, investors, suppliers, and partners to help us achieve our strategic objectives.

We are committed to responsible business practices that create shared environmental, social and economic value. This framework gives us the flexibility to issue financial instruments to support our commitment to achieve a broad range of sustainability outcomes. We intend that such instruments will be appealing to a broad range of the ESG-focused investor community who will be valuable allies in supporting our strategy.

⁵ <https://www.gov.uk/government/collections/regulatory-framework-requirements>

Section 2: Sustainable Finance Framework

Establishing a mechanism to allow our financial instruments to be recognised and formally linked to ESG is an important milestone in our journey to become a more sustainable organisation.

To comply with market standards, the framework follows best practice recognised by internationally constructed voluntary principles published by the International Capital Markets Association (“ICMA”) and the Loan Market Association (“LMA”).

This framework confirms alignment, of Bonds, Loans and Private Placements with the International Capital Market Association’s (“ICMA”) 2021 Green Bond Principles (GBP) with June 2022 Appendix 1, the 2021 Social Bond Principles (SBP) with June 2022 Appendix 1 and the 2021 Sustainability Bond Guidelines (“SBG”). The Framework also refers to the Loan Market Association (“LMA”) 2023 Green Loan Principles (“GLP”) and the 2023 Social Loan Principles (“SLP”) or as they may be subsequently amended. We intend to use the capital raised for a specific (eligible) outcome and will therefore, for the purpose of this document, categorise such instrument as use of proceeds.

This Sustainable Finance Framework has five core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External Review

This Framework enables Midland Heart to issue a broad range of sustainable debt instruments, such as private placements, loans and bonds, funding a mixture of Green and Social projects.

We are committed to seeking ways to improve the transparency of our ESG strategy and reporting and will continue to update our framework as our understanding and the broader market evolves, including taking into account new standards and taxonomies applicable to our financing.

We also recognise the value in having our framework externally reviewed, giving our stakeholders comfort, we continue to align, at all times, with industry standards. We will therefore be following the key recommendation of heightened transparency from ICMA and the LMA and commit to always having our latest framework assessed by an independent party.

2.1 Use of Proceeds

We are committed to investing in projects that support environmentally and socially sustainable outcomes for the benefit of society, the environment and identified target populations.









An amount equivalent to the net proceeds raised under this Sustainable Finance Framework will be used to finance and/or refinance in whole or in part new or existing Eligible Projects in the table below, subject to the ICMA and LMA principles. The use of proceeds will not be used for activities that fall outside the framework’s activities and criteria.



Dependent on the nature of the project, the investment in Eligible Projects can be measured through asset value, capital expenditure (“Capex”) or operating expenditure (“Opex”).

For capital or operating expenditures, a look-back period of up to 24 months prior to the time of debt issuance will be applied.

We intend to allocate an amount equivalent to the net proceeds raised by any sustainably labelled debt instruments to Eligible Projects within 36 months of issuance.

The table below sets out how each principle is intrinsically aligned to our strategy and the impacts we anticipate achieving, supported by practical project measures.

ICMA & LMA Category	Indicative alignment to the UN SDGs	Financing Description
Affordable housing	 	<ol style="list-style-type: none"> 1. The construction and acquisition of affordable housing 2. Ongoing maintenance, refurbishment and modernisation of affordable housing 3. Existing social and affordable housing in the United Kingdom
Energy efficiency	 	<ol style="list-style-type: none"> 1. The construction of new homes classified as EPC ‘B’ or higher 2. Retrofitting existing homes by at least one EPC band to a minimum EPC ‘C’ 3. Installation of appliances or devices to improve energy efficiency of new or existing buildings
Renewable energy	 	<ol style="list-style-type: none"> 1. The installation and / or use of electricity that is self-generated
Clean transport	 	<ol style="list-style-type: none"> 1. Installation of Electric Vehicle (EV) charging points in new and existing homes, schemes and commercial spaces. 2. Purchase of EVs for our vehicle fleet 3. Provision of facilities for cycling

ICMA & LMA Category	Indicative alignment to the UN SDGs	Carbon Reduction Plan key theme	Definition	Description	How we may measure our impact	Reference financial line item	Project alignment
Affordable housing	 	The homes we rent, the homes we build and the way we work	Properties which comply with the UK Government's definition of Affordable Housing and Shared Ownership ⁶	<ol style="list-style-type: none"> The construction and acquisition of affordable housing in the United Kingdom Ongoing maintenance, refurbishment and modernisation of affordable housing in the United Kingdom Existing social and affordable housing in the United Kingdom 	<ul style="list-style-type: none"> New affordable properties by category (#) Average rents charged, relative to private sector rents⁷ 	Capex or Asset Value or Opex	<ul style="list-style-type: none"> Social housing a proportion of total rent Intervention projects in our homes e.g. decorative, facilities, security and efficiency measures.
Energy efficiency	 	The homes we rent, the homes we build and the way we work	An Energy Performance Certificate is a rating used to express the theoretical energy performance of a building. EPC C can also be considered a threshold to alleviate the potential for fuel poverty.	<ol style="list-style-type: none"> The construction of new homes classified as EPC 'B' or higher in the United Kingdom Retrofitting existing homes by at least one EPC band to a minimum EPC 'C' Installation of appliances or devices to improve energy efficiency of new or existing buildings 	<ul style="list-style-type: none"> Number (#) or % new homes with an energy efficiency rating of EPC 'B' or higher Number (#) or % of existing homes improved by at least one EPC band to a minimum EPC 'C' Annual energy savings (kWh or kWh/m²) Total CO₂ emissions avoided (kg/tonnes) 	Capex or Asset Value or Opex	<ul style="list-style-type: none"> Development programme EPC assessment programme Incremental retrofit programme Energy efficiency measures utilised or installed including smart meters and thermostats, solar PV, diverters, triple glazing, insulation, etc.
Renewable energy	 	The homes we rent, the homes we build and the way we work	The purchase of renewably sourced energy or the use of self-generated electricity that have no operationally associated carbon emissions	<ol style="list-style-type: none"> The installation and / or use of electricity that is self-generated 	<ul style="list-style-type: none"> Total CO₂ emissions avoided (kg/tonnes) Renewable energy capacity installed (kW) Number (#) solar PV installations 	Capex or Asset Value or Opex	<ul style="list-style-type: none"> Renewable energy systems installed i.e. solar PV systems.
Clean transport	 	The homes we rent, the homes we build and the way we work	The purchase and use of or installation of solutions to increase the use of clean transport.	<ol style="list-style-type: none"> Installation of Electric Vehicle (EV) charging points in new and existing homes, schemes and commercial spaces. Purchase of EVs for our vehicle fleet Provision of facilities for cycling 	<ul style="list-style-type: none"> EV (#) charging points installed Total charging capacity installed (kW) EVs (#) purchased / leased for our fleet of vehicles Provision (#) of cycling facilities installed 	Capex or Asset Value or Opex	<ul style="list-style-type: none"> Retrofit projects associated with EV charging Homes built with EV charging Fleet management Homes built with cycling facilities Interventions where cycling facilities have been retrofitted

⁶ Based on the definitions of "low cost rental accommodation" and "low cost home ownership accommodation" in the Housing and 7 Regeneration Act of 2008

⁷ According to national planning policy affordable housing rent should be 20% below local market value

⁸ Description for how financing or re-financing is to be used.

2.2 Process for Project Evaluation and Selection

The New Business Group is accountable for the selection and evaluation of projects using guidelines approved by the ESG Committee. The New Business Group is chaired by our Chief Executive Officer and includes the Executive Director of Growth & Finance and the Executive Director of Operations as well as other Directors in our Treasury and Development Teams.

Projects are reviewed by the ESG Committee to determine / agree that they are eligible projects.

Overall accountability for the framework will sit with the ESG Committee who is responsible for the coordination, evaluation, and general organisation, of the progress against the pledges and obligations detailed within the framework on behalf of Midland Heart. The Committee is chaired by our Executive Director of Finance & Growth and includes two other Executive Directors, our Executive Director of Operations and our Executive Director of Corporate Resources. Other participants may include senior leadership and subject matter experts from Directorates within **the homes we rent, the homes we build and the way we work**. This Committee meets bi-monthly.

Projects and programmes coordinated and evaluated within the ESG Committee may ultimately be reportable to Board as determined by the strategic focus of the workstream, for example: energy efficiency measures that will achieve EPC uplifts within the homes we rent.



The framework will be reviewed internally on an annual basis to ensure continued compliance with current market standards. It is our objective to remain transparent throughout and any changes will be publicly disclosed.

The ESG Committee approves eligible expenditure as advised by the New Business Group based on the analysis of their reports and the Board's budget. The ESG Committee is also responsible for the oversight of any material social and/or environmental risks associated with the Eligible Projects, ensuring that the appropriate assessment of risk is undertaken by the Assurance & Risk Committee. Where relevant, mitigation will be developed to address any possible negative material social and/or environmental risks associated with eligible projects. Escalation of the reporting process will be made in a timely manner to Board where material risks have been identified. We expect this to be a two-stage process whereby risks are firstly monitored to assess severity, followed by a trade-off analysis against the benefits.

The framework will be reviewed internally on an annual basis to ensure continued compliance with current market standards. It is our objective to remain transparent throughout and any changes will be publicly disclosed.

There may also be circumstances where projects listed require updating, which can be to:

- 1 Include additional eligible projects** – Should applicable loans be repaid or new projects identified.
- 2 Remove identified eligible projects** – Should disclosed projects become non-compliant with the strategic direction.

2.3 Management of Proceeds

Our aim is to be transparent and net proceeds from the applicable funding instrument will be appropriately segregated and tracked via our Finance Team and ESG Committee and reconciled to the disclosed Eligible Project(s) as referenced under this framework.

The Finance Team, which includes the corporate and commercial aspects of the management of accounts and planning, has overall responsibility for tracking and reporting on the following:

- A brief description of the projects financed
- The amount of proceeds allocated to the projects
- Expected social and/or environmental impacts
- Obtaining external verification, where appropriate.

Finance Business Partners will be responsible for collaborating with delivery teams to collate information central to the completion of projects.

Where the funding instrument is a Bond, Private Placement or Term Loan, we intend to fully allocate the proceeds to eligible projects within 36 months

of receipt. Whilst it is our intention to raise finance for new projects, we may need to use the proceeds for refinancing activity and the framework supports this. Where appropriate, we commit to provide an estimate of the share of new financing versus re-financing at the time of engagement.

Additionally, where we elect to re-allocate and assign proceeds to existing eligible projects, we intend to look back no more than 24 months from the appropriate receipt of proceeds.

Pending the full allocation of proceeds to eligible projects, the balance will be invested in cash or short-term liquidity money market instruments in accordance with our Treasury Management Policy or used to optimise our overall debt position pending allocation to Eligible Projects.

Eligible projects will be selected in accordance with the use of proceeds criteria and the evaluation and selection process presented above.

If an asset is no longer eligible under the criteria, it will be removed from the Eligible Project portfolio. In such scenario, Midland Heart will replace the asset with another eligible project and will strive to achieve this as soon as reasonably practicable.



2.4 Reporting

We are committed to providing clear, relevant and transparent information to our stakeholders, wherever feasible. It is therefore our intention to breakdown our reporting into two distinct workstreams.

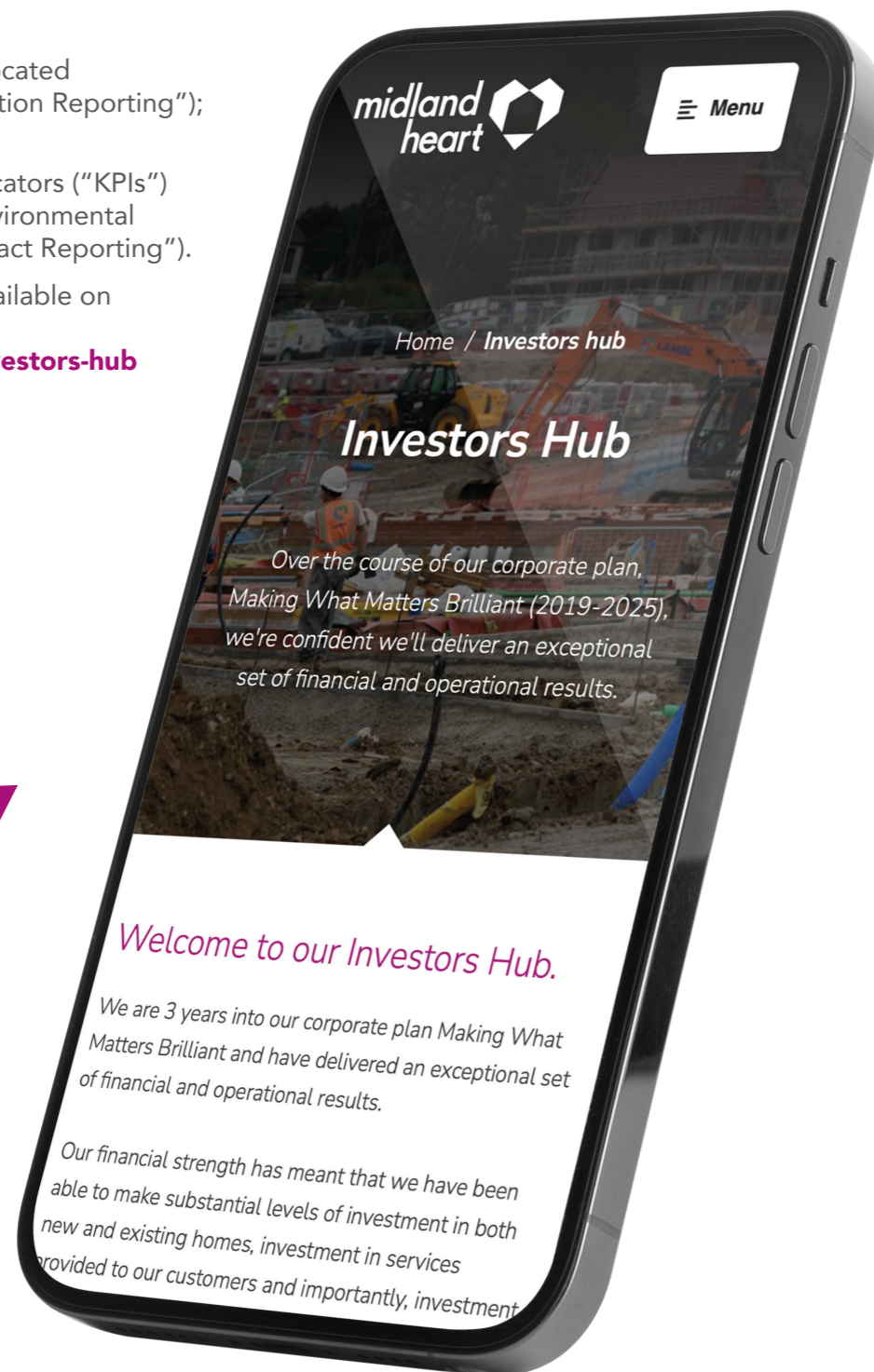
To enable investors to follow the progress and to provide insight into prioritised areas, Midland Heart will provide Allocation Reporting and Impact Reporting on an annual basis until full allocation of the net proceeds, and thereafter in case of any material change to the allocation.

The reporting will include:

- the amount of net proceeds allocated to each Eligible Project ("Allocation Reporting"); and
- expected key performance indicators ("KPIs") (qualitative and/quantitative environmental indicators) where feasible ("Impact Reporting").

Both reports will be made publicly available on our website.

www.midlandheartgroup.org.uk/investors-hub



2.4.1 Allocation Reporting

Should the Sustainable Finance Framework be used, an Allocation Report will be produced annually, within 12 months from the receipt of the net proceeds, until full allocation of the net proceeds has taken place.

Covering each Sustainable Financing Debt Instrument linked to this framework, this report will look to show:

- The type of financing instruments used and the net proceeds outstanding from the Sustainable Financing
- Amount of proceeds allocated to Eligible Projects, per category
- Split between Social and Environmental allocation

- The amount and/or percentage of new and existing projects (share of financing and refinancing)
- Amount of unallocated proceeds and how unallocated proceeds have been held (if any); and
- A complete list of Eligible Projects financed by the outstanding Sustainable Financing.

The report will continue to be produced until the earlier of:

- the maturity of the debt; or
- the proceeds of debt have been reported as having been fully allocated to eligible project spend.

2.4.2 Impact Reporting

With our inaugural Environmental, Social and Governance (ESG) Report published in 2020/21, our aim is to enhance this into a comprehensive annual impact report, combining our existing disclosure with new obligations from this framework and where possible, incorporating the Harmonized Framework for Impact Reporting (2021).

We will annually, and until the maturity of the Sustainable Financing Instruments, provide investors with information within our Impact Report regarding the environmental or social impacts of the projects funded by the outstanding Sustainable Finance Instruments.

We anticipate the impact delivered by the proceeds generated under this framework will both add to and complement our annual ESG report which currently aligns with the SRSSH.. Whilst not a conclusive list, the table on [page 26 - 27](#) seeks to summarise how we expect our reporting commitments to interact.

Section 3: External Review

3.1 Pre-Issuance Review

We have appointed DNV Business Assurance Services UK Limited (“DNV”) to independently verify our Sustainable Finance Framework and its alignment with the relevant ICMA and LMA Principles and claims made by Midland Heart.

The second party opinion is publicly available on our website.

www.midlandheartgroup.org.uk/investors-hub



3.2 Post-Issuance Review

An independent verifier will provide assurance on the allocation of the proceeds of green, social or sustainable finance instruments deployed during the last 12 months and the KPIs being reported by way of impact reporting.

The associated report and verification statement will be publicly available on our website.

www.midlandheartgroup.org.uk/investors-hub



Section 4: Disclaimer

The information contained in this framework including the document and any related documentation made or to be made by the management of Midland Heart Limited, any related verbal or written communications in respect thereof (the framework) has been prepared to assist interested parties in making their own evaluation of Midland Heart Limited and Midland Heart Capital plc (the Issuer) (together, Midland Heart).

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