

Second-Party Opinion

Housing New Zealand Sustainability Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Housing New Zealand (HNZ) Sustainability Financing Framework is credible and impactful, and aligns with the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 2018 as well as the Green Loan Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The four eligible categories for the use of proceeds – (i) Green Buildings, (ii) Pollution Prevention and Control (iii) Affordable Housing and (iv) Socioeconomic Advancement and Empowerment - are aligned with those recognized by both Green Bond Principles, Social Bond Principles and the Green Loan Principles. Sustainalytics considers the eligible projects to lead to positive environmental and social impacts through decreasing waste and GHG emissions, supporting sustainable cities and the wellbeing of communities in New Zealand. In addition, Sustainalytics considers that the eligible projects will advance the UN Sustainable Development Goals (SDGs), specifically SDG 7, 10, 11 and 12.



PROJECT EVALUATION / SELECTION HNZ's eligible project candidates are evaluated and selected by its dedicated Sustainability Financing Working Group (SFWG) based on the established eligibility criteria. The SFWG consists of cross-functional representatives from treasury and financial control teams as well as HNZ's business partners. The final candidates for financing are reviewed and approved by the Chief Financial Officer (CFO) as a final validation. This process is aligned with market practices.



MANAGEMENT OF PROCEEDS The net proceeds from sustainable financing instruments will be earmarked for allocation to eligible projects and recorded in HNZ's Sustainability Financing Register, which is managed by the SFWG. Pending full allocation, the unallocated proceeds will be invested according to the HNZ Group Treasury Policy. This process is in line with market practices.



REPORTING HNZ commits to report allocation of proceeds and impact on the company's website as part of its annual report until full allocation of proceeds. Allocation reporting will include a list of eligible projects, description of major projects, the total amount allocated to eligible projects and the amount of unallocated proceeds. Where possible, the impact reporting will include relevant impact metrics per each green and social project category. Sustainalytics views HNZ's allocation and impact reporting as aligned with market practices.

Evaluation date	August, 2019 ¹
Issuer Location	Wellington, NZ

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¹ This SPO is an updated version of the previous SPO (dated 27 February 2019). The Framework and SPO were updated to include the possibility to issue Wellbeing Bonds under the Framework. The updated does not affect the eligibility criteria but includes a matching of the eligible criteria to the New Zealand Treasury's Living Standards Framework.

Introduction

Housing New Zealand Corporation is a Crown Agent which provides housing and housing-related services in New Zealand to 185,000 people in its 64,000 properties, of which, around 61,500 are owned and 2,500 leased. Housing New Zealand Corporation was formed in 2001 and its National Office is in Wellington, New Zealand.

Housing New Zealand (HNZ or “the company”) is the main operating subsidiary of Housing New Zealand Corporation. HNZ has developed the HNZ Sustainability Financing Framework (the “Framework”) under which it is considering to issue green, social, sustainability and wellbeing bonds and loans and use the proceeds to finance and refinance, in whole or in part, existing and future projects and expenditures to improve the environmental performance and availability of social housing in New Zealand and which support HNZ’s strategy and vision. The Framework defines eligibility criteria in the following areas:

Green Eligible Categories:

1. Green Buildings
2. Pollution Prevention and Control

Social Eligible Categories:

1. Affordable Housing
2. Socioeconomic Advancement and Empowerment

HNZ engaged Sustainalytics to review the HNZ Sustainability Financing Framework dated February, 2019, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines 2018 (the “GBP”, “SBP” and “SBG”),² as administered by the International Capital Market Association (the “ICMA”),³ Green Loan Principles (“GLP”) as administered by LMP/APLMA,⁴ and the Framework’s environmental and social credentials. This Framework has been published in a separate document.⁵

As part of this engagement, Sustainalytics held conversations with various members of HNZ’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of HNZ’s sustainability financing. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the HNZ Sustainability Financing Framework and should be read in conjunction with that Framework.

² Sustainability Bonds are aligned with the four core components of both the Green Bond Principles and Social Bond Principles, with the former being especially relevant to underlying Green Projects and the latter to underlying Social Projects.

³ ICMA Sustainability Bond Guidelines 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

⁴ http://www.lma.eu.com/application/files/8415/2162/5092/LMA_Green_Loan_Principles_Bookletpdf.pdf

⁵ <https://www.hnzc.co.nz/about-us/investor-relations/>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the HNZ Sustainability Financing Framework

Summary

Sustainalytics is of the opinion that the HNZ Sustainability Financing Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018, Social Bond Principles 2018, Sustainability Bond Guidelines 2018 and Green Loan Principles 2018. Sustainalytics highlights the following elements of HNZ's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible use of proceeds categories of the HNZ Sustainability Financing Framework are recognized as impactful by the Green Bond Principles 2018, Green Loan Principles 2018 and Social Bond Principles 2018. Sustainalytics highlights that HNZ limits the use of proceeds of green/ social/ sustainability and wellbeing bonds to finance social housing and directly related matters in New Zealand only. Social housing is for Priority A and B people and households regarding housing needs, the highest two levels, as defined by the government of New Zealand.⁶ Given the defined target population Sustainalytics believes that investments in the eligible projects will provide a clear social impact and contribute to the wellbeing of local communities while simultaneously contribute to reducing the environmental footprint of HNZ's housing services.
 - In addition, Sustainalytics considers that the issued bonds will contribute to wellbeing of New Zealanders as defined in the Living Standard Framework by the Treasury of New Zealand (LSF). Sustainalytics considers the LSF to be a credible framework for measuring wellbeing given its alignment with the OECD's internationally recognized approach on wellbeing as well as the inclusion of research and evidence by local and international experts (see impact section for a more detailed analysis).⁷
 - HNZ's green building eligibility criteria align with recognized third-party certification schemes and includes buildings with a Homestar Rating of 6 or above. Sustainalytics has conducted a review of the standard and views it as credible (see Appendix 1 for additional details on the certification schemes and Section 3: Impact of Use of Proceeds). The 6 Homestar Rating standard requires environmental design elements that exceed energy efficiency and water use reduction as well as ensuring less moisture or condensation⁸ than realized in most New Zealand houses and current building codes.
 - HNZ limits refinancing of projects to those from 2018/2019 fiscal years and forward. Sustainalytics views HNZ's committed timeframe for refinancing projects as aligned with the market practices.
 - A minor part of the proceeds may be allocated to OPEX (operational expenditures) that is specific to developing an Intensive Tenancy Management function, which supports tenants with highest risk poor wellbeing outcomes. Given the function's focus, Sustainalytics believes that OPEX related to Intensive Tenancy Management creates a positive social impact. (See Section 3: Impact of Use of Proceeds)
- Project Evaluation and Selection:
 - According to HNZ's three-step project evaluation and selection process, a pool of eligible candidate projects is identified by the Treasury Team and evaluated by Sustainability Financing Working Group (SFWG) based on established eligibility criteria. The SFWG will consist of cross-functional representatives from treasury and financial control teams as well as HNZ's business partners. After the evaluation process, final candidates are reviewed and approved by the CFO as a final validation. The process is aligned with market practices.

⁶ Social housing need is classified by the New Zealand government in classes. Priority A and B are the two classes with the highest housing need. Ministry of social development, June 2018 Housing Quarterly Report: <https://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/social-housing/housing-quarterly-report-jun2018.pdf>

⁷ New Zealand Government, Living standards, Last updated: Tuesday, 4 December 2018, accessed July 2019: <https://treasury.govt.nz/information-and-services/nz-economy/living-standards>

⁸ http://content.aucklanddesignmanual.co.nz/ADM%20Images/Carousel/003_Apartments/Download%20Documents/6HomestarChecklist.pdf

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- Management of Proceeds:
 - HNZ has committed to record the allocations and track the use of ongoing proceeds using a Sustainability Financing Register. The proceeds will be earmarked against the pool of eligible projects and expenditures identified in the Sustainability Financing Register. Pending full allocation, the unallocated proceeds will be invested according to the HNZ Group Treasury Policy. This process is in line with market practices.
- Reporting:
 - HNZ has committed to report allocation of proceeds on the company's website and with the annual report until full allocation of proceeds. HNZ's allocation reporting will include a list of eligible projects, a description of major projects, the total amount allocated to eligible projects and the amount of unallocated proceeds.
 - In addition to allocation reporting, where possible, the annual impact reporting will include relevant impact metrics per each green and social project category such as energy savings from renovations and upgrades, green or equivalent certifications obtained, amount of waste reduced, recycled and/or diverted from landfill (tonnes), CO2 and other GHGs avoided/reduced through waste management (tCO2e), number of people housed with new and/or refurbished accommodation, and type of support for customers identified as most at risk of poor wellbeing outcomes.
 - Sustainalytics believes that HNZ's allocation and impact reporting processes are aligned with market practices.

Alignment with Sustainability Bond Guidelines 2018 and Green Loan Principles 2018

Sustainalytics has determined that HNZ's Sustainability Financing Framework aligns with the four core components of the Green Bond Principles 2018, Green Loan Principles 2018 and Social Bond Principles 2018 and therefore is also aligned with the Sustainability Bond Guidelines 2018. For detailed information please refer to Appendix 3: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of the Issuer

Contribution of Sustainability Financing Framework to HNZ's sustainability strategy

HNZ is the main operating subsidiary of Housing New Zealand Corporation, which is a Crown agent with the mandate to provide housing services for New Zealanders in need. In addition, HNZ has developed the following sustainability commitments and strategies:⁹

- HNZ has developed an environmental strategy framework based on three visions: (i) reducing the customer's environmental footprint, (ii) operating in an environmentally efficient way, and (iii) owning and delivering environmentally efficient assets.
- HNZ's established targets include reducing the vehicle emissions from operations and customers, the rate of waste production by construction activities, the rate of embodied emissions in homes and buildings, the waste produced in homes and offices, the soil run-off on construction sites, urban air pollution, and providing energy efficient homes and buildings.
- New Zealand government has committed to several international agreements on behalf of HNZ Corporation such as reducing the GHG emission to 30% by 2030.

Based on HNZ's mandate and environmental strategy Sustainalytics considers HNZ well positioned to enter into sustainable financing transactions and issue sustainability, green or social bonds and/or loans.

Well positioned to address common environmental and social risks associated with the projects

While the eligible categories for the use of proceeds are recognized as impactful by Green Bond, Green Loan and Social Bond Principles, Sustainalytics recognizes that the related eligible categories can have potential negative environmental impacts such as air, water, and soil pollution from construction activities, biodiversity loss from land use change, as well as risk related to community relations. Moreover, social benefits programs in general can include risks of increasing inequality if not targeted at the right target population. Sustainalytics

⁹ HNZ Environmental Strategy, <https://www.hnz.co.nz/about-us/investor-relations/>

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believes that HNZ is well positioned to mitigate the mentioned risks through the following systems and processes:

- The New Zealand legislation requires that all construction work be followed by an ecological impact assessment¹⁰ and an assessment of environmental effects.¹¹ In addition, New Zealand is considered a designated country by the equator principles-implying robust environmental and social governance through regulatory environment.¹² Since HNZ intends to use the proceeds for construction exclusively in New Zealand, Sustainalytics considers the regulatory framework to ensure mitigation of risks related to environmental impacts of construction work.
- HNZ has conducted an internal assessment of the company's key environmental impacts and developed several initiatives to reduce construction waste, reduced urban air pollution impacts, energy efficiency or soil run-off rates, such as using recycled construction material,¹³ indicating that the company has taken measures to reduce the negative effect of construction activities.
- HNZ has in place stakeholder engagement managers who work with the community stakeholders, including tenants, neighbors, local authorities, MPs and community organizations, to ensure they're informed about HNZ's activities in their area, mitigating risks related to community relations.
- HNZ has developed a customer strategy and customer programme based on social housing needs and developed targeted tenancy support programmes. For the purposes of sustainable financing transactions and target populations as defined within the Framework, HNZ intends to use the proceeds of each green/social/sustainable bond/ loan issuance explicitly for the development and renovation of social housing, eligible for Priority A and B people and households as defined by the government of New Zealand¹⁴ as people and households with a severe and persistent housing need that must be addressed immediately as well as people and households with significant and persistent need. This indicates that HNZ target population is well defined, thus decreasing the risk of increased inequality through wrongly directed measures.

Based on the regulatory requirements in New Zealand for construction work, HNZ initiatives on environmental protection and community engagement as well as definitions of target population which is aligned with the New Zealand governmental definition of people and households with the greatest housing need, Sustainalytics believes that HNZ is well positioned to mitigate the main environmental and social risks associated with the eligible use of proceeds.

Section 3: Impact of Use of Proceeds

All four use of proceeds categories are recognized as impactful by the GBP, SBP and SBG.

New Zealand Treasury's Living Standard Framework

In addition to being aligned with international market norms, Sustainalytics is of the opinion that HNZ's "Wellbeing Bonds" issued under the updated HNZ Sustainability Financing Framework will contribute to achieving improved wellbeing as defined by the New Zealand Treasury's Living Standard Framework (LSF). The LSF is a framework developed by New Zealand's Treasury to measure and track changes in generational wellbeing (current wellbeing, future wellbeing, risk and resilience). The framework includes domains/factors of current well-being, indicators for future wellbeing as well as risk and resilience components. Domains for current well-being include (i) civic engagement, (ii) cultural identity, (iii) environment, (iv) health, (v) housing, (vi) income consumption, (vii) jobs and earnings, (viii) knowledge and skills, (ix) safety, (x) social connection, (xi) subjective wellbeing, (xii) time use, (xiii) natural capital, (xiv) financial and physical capital, (xv) human capital and (xvi) social capital. Indicators for future wellbeing include (i) natural capital, (ii) human capital, (iii) social capital and (iv) financial and physical capital. A more detailed analysis is provided in Appendix 2.

¹⁰ <https://www.eianz.org/document/item/4447>

¹¹ <https://www.aucklandcouncil.govt.nz/building-and-consents/understanding-building-consents-process/prepare-application/prepare-resource-consent-application/Documents/assessment-environmental-effects-template.pdf>

¹² <https://equator-principles.com/designated-countries/>

¹³ HNZ Environmental Strategy, <https://www.hnzc.co.nz/about-us/investor-relations/>

¹⁴ Social housing need is classified by the New Zealand government in classes. Priority A and B are the two classes with the highest housing need. Ministry of social development, June 2018 Housing Quarterly Report: <https://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/social-housing/housing-quarterly-report-jun2018.pdf>

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Sustainalytics considers the LSF to be a credible indication of wellbeing because (i) the development of the LSF builds on more than 30 years of New Zealand and international research on wellbeing (ii) the development included public consultation and discussion with domestic and international experts, (iii) it draws on the internationally recognized approach on wellbeing of the Organisation for Economic Co-operation and Development (OECD)¹⁵ and (iv) includes elements specific to the New Zealand's society, included in the cultural identity domain.

Sustainalytics has focused on three use of proceeds categories below where the impact is specifically relevant in the local context.

Importance of meeting the affordable housing demand in New Zealand

In New Zealand the average house price is 9.5 times the average annual household income,¹⁶ compared to 3.5 times in the United States and 6.1 times in the United Kingdom. In addition, the affordable housing stock only covers 42% of the estimated total at-risk population, leaving 112,000 people out of the scope.¹⁷ Furthermore, increasing numbers of people applying for the Social Housing Register and a decline in the rate of those leaving affordable housing further increasing demand for affordable housing,¹⁸ with affordable housing demand being highest in main urban and regional hubs.¹⁹

In 2018, the New Zealand government has committed to increasing the public housing supply by around 6,400 units over the period 2018- 2022. In conjunction with the government's commitments, HNZ has also committed to building at least 1,000 new houses per year on average over the next four years. According to the Public Housing Plan 2018-2022, the Ministry of Social Development will collaborate with HNZ and registered community housing providers to offer as many additional affordable houses as possible with available funds through maximizing supply.²⁰ Given the urgent need for affordable housing in New Zealand, Sustainalytics is of the opinion that HNZ's financing of social housing will contribute to improving the quality and accessibility of affordable housing in the country.

Improving accessibility and wellbeing of social housing tenants

HNZ intends to use part of the proceeds to improve accessibility of its housing through integrating mobility considerations, providing appropriate housing for tenants requiring intensive care and provide support to tenants with high risks of poor wellbeing outcomes through an Intensive Tenancy Management function. This includes connecting tenants to other support services in the community, such as health services and welfare support or NGOs that help with budgeting and household management. The Intensive Tenancy Management function is designed to provide better support for the five percent of social housing tenants identified as being most at risk of poor wellbeing outcomes, including health and social well-being. These tenants have a wide-range of needs and require intensive support to mitigate the challenges towards accessibility to services and wellbeing.

Sustainalytics is of the opinion that HNZ's investment to improve support and integrate mobility consideration in social housing will improve the quality and accessibility of social housing services.

Importance to decrease the environmental footprint of houses in New Zealand

HNZ intends to use part of the proceeds to develop and renovate social housing units to align with a Homestar rating of 6 or above, as well as to develop standardized housing designs to reduce waste and increase recycling rates of construction waste, to finance waste management services that offer an alternative to landfilling and to finance further design features that reduce the carbon emissions of social housing.

¹⁵ OECD, How's Life? 2017, Measuring Well-being, November 2017: <http://www.oecd.org/statistics/how-s-life-23089679.htm>

¹⁶ <https://www.interest.co.nz/property/house-price-income-multiples>

¹⁷ The Demand for Social Housing New Zealand, pg. 36:

<https://www.salvationarmy.org.nz/sites/default/files/uploads/20170814spputakingstockreport.pdf>

¹⁸ Annual Report on the Public Housing System: <https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/annual-report-on-the-public-housing-system-as-at-30-june-2017.pdf>

¹⁹ HNZ Customer Strategy, pg. 15

²⁰ Public Housing Plan 2018-2022: <https://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/housing/public-housing-plan/2018-public-housing-plan.pdf>

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Buildings in New Zealand account for 20% of energy related greenhouse gas emissions,²¹ and construction and demolition waste accounts for approximately 50% of total waste landfilled (data from 2012 and 2015),^{22,23} illustrating the important role of buildings in reducing GHG emissions and waste in New Zealand. Moreover, according to New Zealand's Business Council for Sustainable Development, nearly one million homes have poor sustainability performance, i.e. 45% of existing homes are moldy, 64% of houses do not have insulation under their floors, 29% do not have fully insulated ceilings and 71% do not have all walls insulated, indicating that most of the existing houses do not even meet the standards of the new Building Code.²⁴ According to the New Zealand Green Building Council, since the overall standards of New Zealand housing are low, most of the homes would only achieve a 2-3 on the Homestar rating scale.²⁵ New homes designed according to current building code would achieve around 3-4 on the Homestar scale.

Given that Homestar rating 6 exceed the minimum requirements of current New Zealand Building Code in terms of energy efficiency and water use reduction, and ensuring less moisture or condensation,²⁶ Sustainalytics believes that HNZ's use of proceeds for green buildings and waste management can contribute to New Zealand's GHG goals and reduction of the environmental footprint of social housing in New Zealand.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. HNZ's [green/social/sustainability] bonds advance the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	11. Sustainable Cities and Communities	11.1 Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials 11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities
Waste and Pollution Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Socioeconomic Advancement and Empowerment	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status 10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

²¹ New Zealand Green Building Standard, Investors are driving change 27 March 2017 https://www.nzgbc.org.nz/Story?Action=View&Story_id=198

²² Greater Wellington Regional Council Construction and Demolition waste, June 2012: <http://www.gw.govt.nz/construction-and-demolition-waste/>

²³ Level, minimizing waste Construction and demolition produce large amounts of waste, accessed February 2019: <http://www.level.org.nz/material-use/minimising-waste/>

²⁴ Better performing homes for New Zealanders, March 2008: https://www.sbc.org.nz/_data/assets/pdf_file/0008/99422/Better-Performing-homes-for-New-Zealanders.pdf

²⁵ https://www.nzgbc.org.nz/Category?Action=View&Category_id=359

²⁶ http://content.aucklanddesignmanual.co.nz/ADM%20Images/Carousel/003_Apartments/Download%20Documents/6HomestarChecklist.pdf

Conclusion

HNZ has developed its Sustainability Financing Framework to finance, and refinance, the development of new, or retrofit of existing social housing projects as well as directly related matters, such as tenant support in social housing. Eligible categories include (i) green buildings, (ii) pollution prevention and control, (iii) affordable housing, and (iv) socioeconomic advancement and empowerment, which are aligned with those categories recognized as impactful by the Green Bond Principles, Green Loan Principles, Social Bond Principles and Sustainability Bond Guidelines.


Sustainalytics views positively that HNZ limits investments to social housing projects, eligible to Priority A and B households as defined by the New Zealand government as households with severe or significant housing need. Moreover, Sustainalytics is of the opinion that the eligible projects contribute to improve the availability of affordable housing, increase the wellbeing of New Zealand's society as defined by the Living Standards Framework of the New Zealand Treasury and decrease the environmental footprint of social housing in New Zealand.

Sustainalytics considers HNZ's selection and evaluation process as well as management of proceeds and reporting to be aligned with market practice.

Based on the above, Sustainalytics is confident that HNZ is well-positioned to enter into sustainability financing transactions such as the issuance of sustainability, green or social bonds and loans, or wellbeing bonds and that the HNZ Sustainability Financing Framework is robust, transparent, and in alignment with the GBP 2018, GLP 2018, SBP 2018 and SBG 2018.

Appendices

Appendix 1: Overview of Certification Schemes

	Homestar
Background	Homestar is administered by the New Zealand Green Building Council (NZGBC), and rates houses, apartments, or multi-unit buildings.
Certification levels	1-to-10 scale The system is designed to only certify homes that achieve a 6 or better, lower scoring homes are not certified
Areas of Assessment: Environmental Project Management	Design – this rating assesses the full and final plans. Built – this rating occurs after a home is constructed. It certifies that the features in the Design rating have been fully implemented.
Areas of Assessment: Environmental Performance of the Building	Energy Health and Comfort Water Waste Materials Site Home Management Optional Innovation
Requirements	Points are awarded in seven categories, offering a possible total of up to 120 points, plus 10 bonus “innovation” points. Obtaining >60 points results in a 66Star rating, while >100 points results in a 10-Star. Drawing on issues that are relevant in the local context, the rating system places a high degree of emphasis on insulation/heating efficiency and proper ventilation and moisture control (together worth 50% of all available points).
Performance display	 homestar
Accreditation	Homestar Assessor Homestar Practitioner
Qualitative considerations	Homestar 6 appears to be a reputable level, but there is a limitation of data to guarantee the level of impact. Best practice could include limiting eligibility to 7 Homestar or higher

Appendix 2: New Zealand Treasury’s Living Standard Framework (LSF)

Figure 1 describes the LSF²⁷ and the domains and indicators used to measure well-being. Below is a description of the individual elements of the LSF. The mapping of the criteria can be found in HNZ Sustainability Financing Framework.

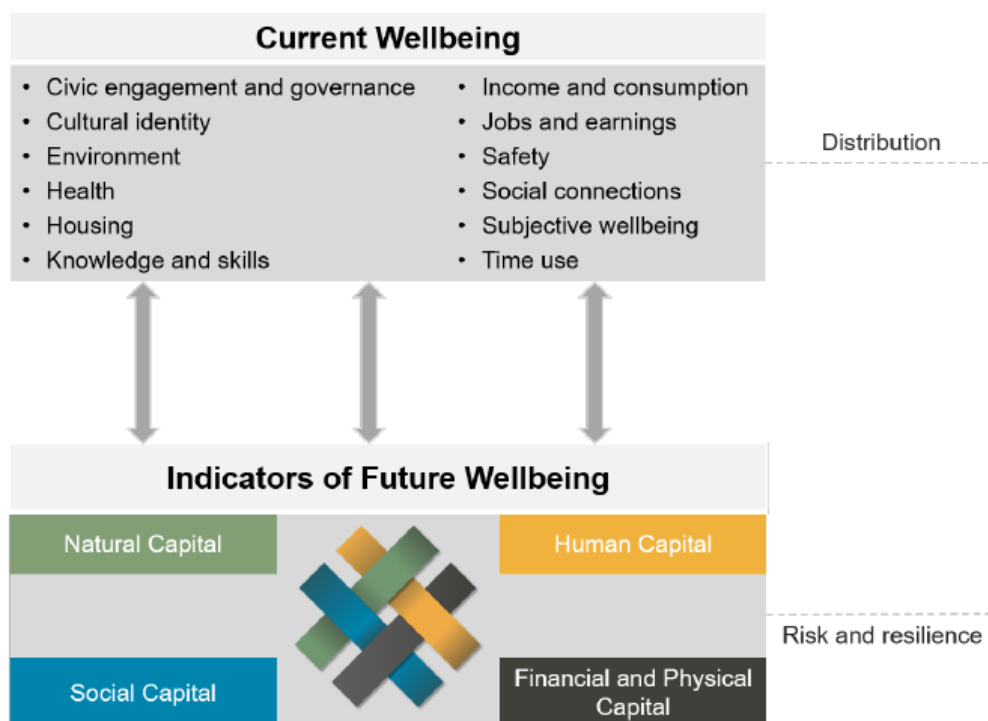


Figure 1 Living Standard Framework by the New Zealand Treasury

Current wellbeing

Current wellbeing is divided into 12 domains, as defined in Table 1. The domains of current wellbeing reflect wellbeing at a “point in time”. The domains are based on research about what is important for people and their wellbeing.

Table 1: The 12 domains of wellbeing

Domain	Definition
Civic engagement and governance	People's engagement in the governance of their country, how “good” New Zealand's governance is perceived to be and the procedural fairness of our society.
Cultural identity	Having a strong sense of identity, belonging and ability to be oneself, and the existence value of cultural taonga.
Environment	The natural and physical environment and how it impacts people today (this is different from the natural capital stock, which is measured elsewhere).
Health	Our mental and physical health.
Housing	The quality, suitability and affordability of the homes we live in.

²⁷ Source: New Zealand Government, Living standards, Last updated: Tuesday, 4 December 2018, accessed July 2019: <https://treasury.govt.nz/information-and-services/nz-economy/living-standards>

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Table 1: The 12 domains of wellbeing

Domain	Definition
Income and consumption	People's disposable income from all sources, how much people spend and the material possessions they have.
Jobs and earnings	The quality of people's jobs (including monetary compensation) and work environment, people's ease and inclusiveness of finding suitable employment and their job stability and freedom from unemployment.
Knowledge and skills	People's knowledge and skills.
Safety	People's safety and security (both real and perceived) and their freedom from risk of harm, and lack of fear.
Social connections	Having positive social contacts and a support network.
Subjective wellbeing	Overall life satisfaction and sense of meaning and self.
Time use	The quality and quantity of people's leisure and recreation time (that is, people's free time when they are not working or doing chores).

Future Wellbeing

The four capitals, described in Table 2, are the foundations of wellbeing that together generate wellbeing now and in the future. The LSF defines New Zealand's capital stocks to include the skills and knowledge of the New Zealand people, the natural environment they live in, the social connections, community and institutions they have as well as the buildings and machines they use. These capitals combine to generate wellbeing, both now and in the future. According to the LSF, current levels of the capital stocks and changes over time influence the sustainability and New Zealand's ability to achieve future wellbeing.

Table 2: The four capitals

Capital	Definition
Natural capital	All aspects of the natural environment needed to support life and human activity.
Financial and physical capital	The country's physical, intangible and financial assets that have a direct role in supporting incomes and material living conditions.
Human capital	People's knowledge, physical and mental health that enables them to fully participate in work, study, recreation and society.
Social capital	The social connections, attitudes, norms and formal rules or institutions that contribute to societal wellbeing.

Risk and resilience

Risk and resilience is the third element of the LSF. It can be thought of at individual or national levels, but can also be considered at family, whānau and community levels. Risk and resilience relate directly to the capital stocks. The quality and quantity of the capital stocks, which can be degraded and in some cases actively drawn down, influence the ability of New Zealand people and the country to withstand shocks.

Appendix 3: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Housing New Zealand
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Housing New Zealand Sustainable Financing Framework.
Review provider's name:	Sustainalytics
Completion date of this form:	August2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	Update of the Housing New Zealand Sustainable Financing Framework SPO from February 2019

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

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1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The four eligible categories for the use of proceeds – (i) Green Buildings, (ii) Pollution Prevention and Control, (iii) Affordable Housing and (iv) Socioeconomic Advancement and Empowerment - are aligned with those recognized by both Green Bond Principles and Social Bond Principles. Sustainalytics considers the eligible projects will lead to positive environmental and social impacts through decreasing waste and GHG emissions while supporting sustainable cities and communities in New Zealand.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other <i>(please specify)</i> : |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|--|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

HNZ's candidate eligible projects are evaluated and selected by its dedicated Sustainability Financing Working Group (SFWG) based on the established eligibility criteria, the final candidates are approved by the Chief

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Financial Officer (CFO) as a final validation. The SFWG will consist of cross-functional representatives from treasury and financial control teams as well as HMZ's business partners. The process is aligned with the market practices.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The net use of proceeds will be recorded by HNZ's Sustainability Financing Register, which is managed by the SFWG, and earmarked for allocation to eligible projects. Pending full allocation, the unallocated proceeds will be invested according to the HNZ Group Treasury Policy. This process is in line with market practices.

Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

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HNZ commits to report allocation of proceeds and impact on the company's website as part of its annual report until full allocation of proceeds. Allocation reporting will include a list of eligible projects, description of major projects, the total amount allocated to eligible projects and the amount of unallocated proceeds. Where possible, the impact reporting will include relevant impact metrics per each green and social project category. Sustainalytics views HNZ's allocation and impact reporting as aligned with market practices.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Information reported (expected or ex-post):

- | | |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input type="checkbox"/> Number of beneficiaries |
| <input checked="" type="checkbox"/> Target populations | <input type="checkbox"/> Other ESG indicators (please specify): Green certifications obtained, materials sourced sustainably, Amount of waste reduced, reused, recycled and/or diverted from landfill (tonnes), amount of waste that is separated and/or collected and treated, Amount of soil and land remediated, amount of runoff reduced |

Means of Disclosure

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- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Annual Report |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<https://www.hnzc.co.nz/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

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Sustainalytics

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For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

