

Sustainable Finance Framework

Propensio Finance



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1. Introduction and Overview of Sustainability at Propensio Finance

At Propensio Finance, we have a range of lending options to help customers improve their lifestyles. From home improvements to buying their dream holiday homes we help customers to spread the cost of their purchase.

Propensio Finance have four key portfolios:

- **Home Improvements** – Loans that can help customers fund a range of exciting and value enhancing projects such as energy efficient windows & doors, boiler upgrades or garden studio.
- **Energy & Renewables** – Propensio's unsecured renewables funding agreement can help customers join the green revolution with solar PV or air source heat pumps.
- **Accessibility** - Propensio accessibility financing which can help restore a level of liberty to people's lives. We can help fund a rise and recline chair, an adjustable bed, a home lift, or a hearing aid
- **Leisure** – Propensio's hire purchase agreement can help customers buy their dream holiday home. Whether this is the beginning of a holiday home ownership journey, or it's a part exchange or upgrade, we can help bridge the gap with funding static caravans or lodges.

Propensio has identified a total of ten products on a lending/investing level that would be included within the green and social remit (listed below)

Table 1: Environmental and Social aligned products offered by Propensio Finance when lending/investing

Green products	Social products
Solar and/or battery	Riser/recliner chairs
Air source heat pump	Adjustable/orthopaedic beds
EV chargers	Stair and access lifts
Boiler upgrade	Accessible bathrooms (i.e. walk-in baths)
Energy efficient windows and doors	Hearing aids

Whilst the above table shows the products covered when lending to borrowers, Propensio Finance also has key ESG priorities on a corporate level. One such priority from a Governance standpoint is cyber resilience, as showcased by Propensio achieving the Cyber Essentials Certification, demonstrating Propensio's commitment towards client data protection and fortifying cybersecurity defences. Additional ESG priorities from a corporate perspective are:

- Support and fundraising for our chosen charity, Bluebell Wood Children's Hospice. This is a local charity who provide vital support to children and young adults with life-shortening conditions.
- Sponsorship of Sheffield FC, the World's First Football Club. Sheffield FC supports football at grassroots level for a range of ages, sexes and abilities and has 3 competitive teams; men's, women's and disability. They represent a critical part of not only Sheffield but World Football heritage.

2. Overview and Rationale of Sustainable Finance Framework

Propensio Finance have developed the Sustainable Financing Framework (the “Framework”) with the aim of attracting dedicated funding for loans that bring a positive environmental and/or social impact. The framework aims to become the reference document for all future green, social and sustainability debt instruments issued by Propensio Finance.

Under the Framework, Propensio Finance may finance or refinance new or existing Eligible Assets – Green, Social or a mix thereof, as defined within the Use of Proceeds section – through the issuance of either Green, Social or Sustainability debt instruments.

The Framework is intended to provide a clear and transparent set of definitions to enable financing that supports the transition to a net zero economy and brings positive social benefits to create long-term value for stakeholders.

As such, the Framework has been developed in line with global best practice in sustainable finance methodologies, guidelines, and taxonomies, including:

- ICMA Green Bond Principles (“GBP”), as amended from time to time
- ICMA Social Bond Principles (“SBP”), as amended from time to time
- ICMA Sustainability Bond Guidelines (“SBG”), as amended from time to time
- LMA/LSTA/APLMA Green Loan Principles (“GLP”), as amended from time to time
- LMA/LSTA/APLMA Social Loan Principles (“SLP”), as amended from time to time

In line with the aforementioned guidelines, the Framework will adhere to the ICMA Principles, as well as the recommendation for an independent external review. The core components of the Framework include:

- Use of Proceeds
- Evaluation and Selection Process
- Management of Proceeds
- Reporting

To the extent that ICMA’s GBP, SBP or SBG documents will be updated in the future, Propensio Finance may update this Framework to remain aligned with best market practices and sustainable finance policies and legislation, including obtaining a new Second Party Opinion (“SPO”) as deemed necessary. More generally, this Framework may be subsequently updated as Propensio Finance’s sustainable financing needs change, new products for customers are launched, and/or the sustainable finance market evolves.

3. Use of Proceeds – Key Features

3.1.1 Eligible types of Use of Proceeds or Investments

The proceeds of each Green, Social or Sustainability financing instrument are intended to be used to finance and/or refinance in whole or in part, “Eligible Assets”. Eligible Assets are loans, investments, or other financial assets that satisfy the Eligible Green Assets or Eligible Social Assets definitions as described below, originated by Propensio Finance or any of its subsidiaries. In all cases, the proceeds of the loan are paid to the supplier of the goods or services so there is always absolute certainty that the funds are being used for the intended purpose,

“Eligible Portfolio” is defined as Eligible Green Assets and/or Eligible Social Assets originated by Propensio Finance or any of its subsidiaries. All relevant Eligible Green Assets and/or Eligible Social Assets are subject to Propensio Finance’s Environmental & Social risk policies. In addition, all Eligible Green Assets and/or Eligible Social Assets must not finance any business activity in the following Excluded Sectors, otherwise they shall be excluded from the Eligible Portfolio: Leisure (i.e. Static Caravans)

A lookback period of up to 18 months prior to the respective issuance will be applied.

3.1.2 Eligible Green Assets

“Eligible Green Asset(s)” refers to Eligible Assets supporting the financing of projects that we believe comply with the “Green Asset Definitions” outlined below. Propensio Finance have sought to illustrate how Green Asset Definitions map and are influenced by the corresponding:

- ICMA Green Bond Principles
- United Nations Sustainable Development Goals (UN SDG)

These Green Asset Definitions are intended to encourage financing of Eligible Green Assets that Propensio believes to have positive environmental impact, support the transition to a net zero economy and aim to contribute to the UN SDGs, the targets of the Paris Climate Agreement and the UK Net Zero Strategy.

3.1.3. Eligible Social Assets

“Eligible Social Asset(s)” refer to Eligible Assets supporting the financing of projects or companies that Propensio believes comply with the “Social Asset Definitions” outlined below. Propensio Finance have sought to illustrate how Social Asset Definitions map and are influenced by the corresponding:

- ICMA Social Bond Principles
- United Nations Sustainable Development Goals (UN SDG)

These Social Asset Definitions are intended to encourage funding of Eligible Social Assets that Propensio believe have positive social impacts and contribute to one/more of UN SDGs.

3.2. Eligibility Criteria

Propensio Finance will determine the eligibility of loans to be classified as Eligible under the guidelines set out in Section 3.3. The disclosed categories align with the GBP, SBP and SBG and do not represent an exhaustive list of eligible activities that will be supported through these Sustainable Financing criteria.

All proposed activities must:

- Align with Propensio Finance's Underwriting Policy, which incorporates the principles of responsible lending
- Not fall within the excluded categories
- Contribute positively towards the UN SDGs

3.3. Eligibility Categories

Table 2: Eligible Categories for the Sustainable Finance Framework

Green / Social	ICMA Category	Eligibility Criteria / Target Population	Example projects	Indicative Impact Metrics	UN SDGs
Green	Renewable Energy	Financing and/or expenditures relating to solar PV installations Financing and/or expenditures relating to establishment of renewable energy storage capacity	Renewable energy generation from solar power Renewable energy generation from air source heat pumps Battery storage EV charging installations	Estimated annual GHG emissions avoided (tCO₂e) Expected energy savings (MWh) Number of EV charging installations financed	  
Green	Green Buildings / Energy Efficiency	Retrofits for residential buildings: including, but not limited to insulation of roofs and heat loss reduction, replacement of boilers and other heating/cooling systems, implement energy management systems, Retrofit of existing buildings to improve overall building stock.	Energy Efficient Boiler Upgrade Energy Efficient Windows and Doors (A+)	Estimated annual GHG emissions avoided (tCO₂e) Expected energy savings (MWh) % of sales from energy efficient products % of sales from environmentally friendly products # people with access to affordable clean/efficient energy products/services (e.g. clean cooking stoves)	   

Green / Social	ICMA Category	Eligibility Criteria / Target Population	Example projects	Indicative Impact Metrics	UN SDGs
Social	Affordable basic infrastructure (e.g. clean drinking water, transport, mobility, energy)	Aging Populations & Vulnerable Youth Underserved, owing to a lack of quality access to essential goods and services Individuals with disabilities	Chairlifts and other mobility aids for elderly And/or disabled	# people with improved accessibility and freedom	  

3.4. Process for Project Evaluation and Selection

The evaluation and selection process will be conducted by Propensio Finance's ESG Committee to ensure that the net proceeds of the Green, Social, and Sustainability debt instrument issued under the Framework will be used to originate loans that meets the Eligible Financing Criteria, and hence contribute to the advancement of the UN SDGs identified.

The ESG Committee is made of key stakeholders to ensure that business decisions at Board level integrate environmental and social considerations.

3.4.1 ESG Committee Structure – Members and responsibilities

The ESG Committee meets at least twice annually and is responsible for:

- Review of annual carbon emissions reporting and associated actions
- Review and approval of the Framework and any future amendments
- Selection and approval of proposed assets for inclusion in the Eligible Portfolio
- Managing the Eligible Portfolio over the lifetime of the assets
- Preparation, verification and publication of allocation and impact reporting
- Addressing ESG controversies related to specific assets

Minutes of ESG Committee meetings will be maintained and retained as evidence of Framework oversight and governance

There are three other committees that exist in Propensio Finance's robust governance structure, the purpose of which is to assure the Board that the activities undertaken by the business demonstrate fair consumer outcomes and comply with regulatory requirements. These are: Risk Committee, Pricing Committee, Complaints Committee.

3.5. Management of Proceeds

Propensio Finance pays the whole of the net proceeds from each Green, Social, and Sustainability debt issuance under this Framework directly to the supplier of products and/or services being funded by the loans according to the Use of Proceeds Criteria and Process for Project Evaluation and Selection. The ESG Committee will assess, on a case-by-case basis, each potential eligible green or social asset and confirm whether any refinancing loans are appropriate before including them in the Eligible Asset Portfolio. Full allocation of proceeds for each debt instrument is expected within maximum 18 months post issuance.

Propensio Finance's internal accounting and financial management and information systems will contain relevant information including:

- Key information relating to the Green, Social, and Sustainability debt instrument including transaction date, principal amount of proceeds, maturity date, and interest margin or coupon, etc.
- Details of Use of Proceeds, including:
 - Aggregate amount of proceeds
 - Estimated environmental or social impact as described in paragraph in the Reporting section
 - Other necessary information

After issuance of the Green / Social / Sustainability debt instrument, the net proceeds will be managed by relevant Propensio Finance team on a portfolio basis. As long as the Green / Social / Sustainability debt instrument is outstanding, Propensio will intend to exclusively allocate an amount equivalent to or in excess of the net proceeds of the instrument to an Eligible Portfolio in line with the above-mentioned Eligible Financing Criteria and evaluation and selection process. In line with internal monitoring of the Eligible Portfolio, the ESG Committee will review and approve allocations of proceeds from the issue of the Green / Social / Sustainability debt instrument under this Framework to Eligible Loans on a quarterly basis as required.

Only Eligible Green Assets can be allocated to Propensio Finance's green debt instruments and only Eligible Social Assets can be allocated to Propensio Finance's social debt instruments. If Propensio Finance's was to issue sustainability debt instruments, the net proceeds would be allocated to both Eligible Green Assets and to Eligible Social Assets.

If a loan no longer meets the Eligible Financing Criteria, Propensio Finance will remove the loan from the Eligible Portfolio and aim to replace it with another eligible loan as soon as reasonable practicable.

Unallocated proceeds will be held at Propensio Finance's discretion in cash or short-term liquid investments until additional eligible loans are available.

3.6. Reporting

Propensio Finance will make and keep readily available reporting covering the allocation of net proceeds to the Eligible Portfolio and, wherever feasible, reporting on the impact of the Eligible Portfolio, at least at the category level. Reporting will take place within a year following and will be renewed annually until full allocation of Sustainable Finance net proceeds.

Propensio Finance intends to provide aggregated reporting for all its sustainable financing and other potential sustainable finance outstanding.

The ICMA Green Bond Principles and Social Bond Principles require issuers to make, and keep, readily available up to date information on the use of proceeds to be reviewed annually until full allocation, and on a timely basis in case of material developments. In addition to information relating to the assets to which Green, Social or Sustainability financing instruments issued under this Framework have been allocated, the GBP and SBP recommend disclosure of the expected impact of the projects.

On a best-effort basis, Propensio Finance will aim to align its reporting with the approach described in “(Green Bond Principles) Harmonized Framework for Impact Reporting (June 2022)” and “(Social Bond Principles) Harmonized Framework for Impact Reporting for Social Bonds (June 2022)”.

3.6.1 – Allocation Reporting:

The allocation report will provide indicators, including:

- The total amount of proceeds allocated to each Eligible Green Asset and Eligible Social Asset category
- The number of Eligible Assets included in the Eligible Portfolio
- The balance of unallocated proceeds
- The amount and percentage of new loans added to the Eligible Portfolio post initial allocation

3.6.2 – Impact Reporting:

Propensio Finance may provide qualitative and quantitative information to highlight the positive environmental and social impact from loans re(financed) by the net proceeds of Green / Social / Sustainability debt instrument issued in alignment with this Framework. This will be published in Propensio Finance's Impact Report on an annual basis. These impact indicators may include (for each eligible project category):

ICMA GBP category:

- **Renewable Energy – Renewable energy generation (MWh)**
 - Avoided emissions from renewable electricity generated (tCO₂ equivalent)
 - Estimated annual GHG emissions avoided (tCO₂e)
 - Expected energy savings (MWh)
- **Energy Efficiency – Expected energy savings (MWh)**
 - Estimated annual GHG emissions avoided (tCO₂e)
 - Expected energy savings (MWh)
 - Percentage of sales from energy efficient products
 - Percentage of sales from environmentally friendly products
 - Number of people with access to affordable clean/efficient energy products/services (e.g. clean cooking stoves)

ICMA SBP category:

- **Access to essential services (healthcare and education)**
 - Number of loans/financial services provided to ageing population and individuals with disabilities

4. Review

4.1. Second Party Opinion

Propensio have engaged Sustainable Fitch to provide an external review in the form of a Second Party Opinion on this Framework and the underlying procedures and confirm alignment with the four core components of the GBP, SBP and SBG.

Sustainable Fitch has confirmed the alignment of this Framework and the underlying assets and/or procedures with the ICMA GBP, SBP and SBG.

The Second Party Opinion may be made available on <https://www.sustainablefitch.com/> and www.propensio.co.uk.

4.2. Verification

Propensio may request an independent third party to produce, on an annual basis, starting one year after the issuance and until maturity of the Green, Social and Sustainability financing instruments issued under this Framework, a limited assurance report of the allocation of the proceeds.