

Second-Party Opinion

Lloyds Banking Group Sustainable Bond Framework

Evaluation Summary

Sustainalytics is of the opinion that the Lloyds Banking Group Sustainable Bond Framework is credible and impactful and aligns with the Green Bond Principles 2021 and Social Bond Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Green Buildings, Renewable Energy, Energy Efficiency, Clean Transportation and Affordable Housing – are aligned with those recognized by the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 7 and 11.



PROJECT EVALUATION AND SELECTION LBG's Sustainable Bond Committee will evaluate, select and monitor eligible projects. The committee comprises representatives from the Group's Corporate Treasury, Sustainable Business, Environmental Sustainability, Risk, Finance Sustainability Reporting, Legal, Conduct Compliance and Operational Risk, and Portfolio Analytics departments and other divisions. LBG has internal processes to address environmental and social risks associated with the eligible assets. Sustainalytics considers these processes to be in line with market practice.



MANAGEMENT OF PROCEEDS LBG's Sustainable Bond Committee will be responsible for the management and allocation of proceeds to eligible projects through an internal tracking system. The Bank will allocate proceeds at the time of issuance. Pending allocation, proceeds will be temporarily held in cash or short-term liquid investments. Sustainalytics considers this to be in line with market practice.



REPORTING LBG intends to report on allocation of proceeds on its website on an annual basis. This report will include the size of the green and social portfolios by number of loans and balances at a category level, the amount raised through bond issuance and allocated to eligible assets and the balance of unallocated proceeds. In addition, LBG is committed to reporting on relevant impact metrics. Sustainalytics views LBG's allocation and impact reporting commitments as aligned with market practice.

Second-Party
Opinion

Reviewed by:

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SUSTAINALYTICS



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Introduction

Lloyds Banking Group (“LBG”, the “Bank” or the “Group”) is a retail bank in the United Kingdom with a total asset portfolio of GBP 878 billion (EUR 1,028 billion) as at the end of 2023.¹ Founded in 1766, the Bank serves more than 27 million customers and operates 1,274 branches in the UK.²

LBG has developed the Lloyds Banking Group Sustainable Bond Framework (the “Framework”), under which the Group’s holding company (Lloyds Banking Group PLC) or any of its subsidiaries may issue green or social bonds in the following formats: senior unsecured bonds, secured bonds, subordinated bonds, covered bonds³ and commercial papers, and use the proceeds to finance or refinance, in whole or in part, existing or future projects intended to deliver positive environmental or social benefits. The Framework defines eligibility criteria in five categories:

Green Categories

1. Green Buildings
2. Renewable Energy
3. Energy Efficiency
4. Clean Transportation

Social Categories

5. Affordable Housing

LBG engaged Sustainalytics to review the Lloyds Banking Group Sustainable Bond Framework, dated April 2024, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles 2021 (GBP) and Social Bond Principles 2023 (SBP).⁴ The Framework will be published in a separate document.⁵

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021 and Social Bond Principles 2023, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.16, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of LBG’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. LBG representatives have

¹ LBG, “Helping Britain Prosper 2023”, at: <https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2023/q4/2023-lbg-annual-report.pdf>

² Ibid.

³ For securitizations, LBG: i) commits to distinguish between a secured sustainable standard bond and a secured sustainable collateral bond in the respective offering documents, per the voluntary process guidelines published in the June 2022 Appendix 1 of the GBP 2021; and in the case of a secured sustainable collateral bond, ensure that all of the underlying collaterals will align with the eligibility criteria set forth in the Framework; and ii) has communicated to Sustainalytics that there will be no double counting of eligible projects under the secured sustainable standard bond, secured sustainable collateral bond and any other outstanding sustainable financing instruments.

⁴ The Green Bond Principles and Social Bond Principles are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁵ The Lloyds Banking Group Sustainable Bond Framework is available on LBG’s website at: <https://www.lloydsbankinggroup.com/investors/fixed-income-investors.html>

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

confirmed that: (1) they understand it is the sole responsibility of LBG to ensure that the information provided is complete, accurate and up to date; (2) they have provided Sustainalytics with all relevant information; and (3) any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and LBG.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date stated herein, LBG is encouraged to update the Framework, if necessary, and to seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that LBG has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Lloyds Banking Group Sustainable Bond Framework

Sustainalytics is of the opinion that the Lloyds Banking Group Sustainable Bond Framework is credible and impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of LBG's Sustainability Finance Framework:

- Use of Proceeds:
 - The eligible categories – Green Buildings, Renewable Energy, Energy Efficiency, Clean Transportation and Affordable Housing – are aligned with those recognized by the GBP and SBP.
 - LBG has defined a look-back period of 36 months for its refinancing activities, which Sustainalytics considers to be in line with market practice.
 - Under the Green Buildings category, LBG may finance or refinance the construction, acquisition and refurbishment of housebuildings, commercial and residential buildings in the UK in accordance with the following criteria:
 - Buildings that have obtained one of the following minimum certification levels: i) energy performance certificate (EPC) A or B (and a minimum of EPC B for each individual unit in housebuildings with a project weighted average of B+, equivalent to a minimum SAP score of 86); ii) NextGeneration Project Bronze;⁷ iii) BREEAM Excellent;⁸ iv) LEED Gold;⁹ v) EDGE;¹⁰ vi) Home Quality Mark 4 for residential buildings;¹¹ or vii) NABERS 5 for commercial buildings.¹²
 - Buildings that belong to the top 15% of energy-efficient buildings at the national level based on primary energy demand (PED).

⁷ NextGeneration Project: <https://nextgeneration-initiative.co.uk/projects/>

⁸ BREEAM: <https://bregroup.com/products/breeam/>

⁹ LEED: <https://www.usgbc.org/leed>

¹⁰ EDGE: <https://edgebuildings.com/>

¹¹ Home Quality Mark: <https://bregroup.com/products/home-quality-mark/>

¹² NABERS: <https://bregroup.com/products/nabers-uk/>

- Refurbishment of buildings that leads to at least: i) a 30% improvement in PED; ii) a 30% reduction in carbon emissions; or iii) EPC B, all compared with pre-renovation levels.

LBG has confirmed the exclusion of technologies and systems that are designed or intended to improve the energy efficiency of processes that are carbon intensive (such as production processes in hard-to-abate industries) or powered by fossil fuels. Sustainalytics considers the above-mentioned investments to be aligned with market practice.

- Under the Renewable Energy category, LBG may finance or refinance the following: i) the generation equipment, development, manufacturing, construction, operation, storage and maintenance of renewable energy generation sources; and ii) assets supporting energy transmission and distribution infrastructure (T&D). Examples may include:
 - Onshore and offshore wind energy projects
 - Solar photovoltaic projects
 - Low-carbon hydrogen with the average life cycle carbon intensity at or below 20gCO_{2e} per megajoule lower heating value.¹³ Sustainalytics notes that hydrogen production from water electrolysis paired with low carbon electricity has significant potential to reduce emissions over its conventional pathway of production, i.e. steam reforming of natural gas or light ends. Low-carbon hydrogen represents a 78% reduction compared to fossil fuel-based hydrogen life-cycle GHG emissions.¹⁴ Sustainalytics encourages LBG to favour the sourcing of low carbon intensity power for electrolysis and to report, where feasible, on such intensity.
 - Electricity T&D assets that connect renewable energy projects to the grid
 - Energy storage technologies including battery storage where such systems are not connected to fossil fuel generation assets. Sustainalytics notes that energy systems connected to electricity grids will only be financed under the Framework if the grid fulfils one of the following criteria: i) More than 67% of newly enabled generation installed capacity in the system is below the emissions threshold of 100 gCO_{2e}/kWh, measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period; or ii) the average system grid emissions factor (calculated as the total annual emissions from power generation connected to the system, divided by the total annual net electricity production in that system) is below the threshold value of 100 gCO_{2e}/kWh, over a rolling five-year period.

Sustainalytics notes that the Framework excludes T&D infrastructure that is: i) dedicated to the fossil fuel industry; ii) powered by fossil fuels; or ii) directly connected to fossil fuel power plants. Sustainalytics considers the above investments to be in line with market practice.

- Under the Energy Efficiency category, LBG may finance or refinance the development, manufacturing, repair, maintenance or installation of the following:
 - Energy efficiency technologies, including smart meters for electricity; energy-efficient lighting; highly efficient heating, ventilation, and air conditioning systems; distributed generation assets that meet the criteria under the Renewable Energy category; technologies for peak demand management; devices dedicated to measuring, regulating or controlling the energy performance of buildings; and upgrades of existing broadband networks, including substituting copper wiring for fibre-optic cables.
 - Access or construction equipment powered by electricity or hydrogen, such as forklift trucks, scissor lifts and excavation machinery.

Sustainalytics encourages the Bank to report on estimated or achieved energy efficiency gains, where feasible.

LBG has confirmed the exclusion of technologies and systems that: i) are dedicated to or powered by fossil fuels; ii) are dedicated to fossil fuel production or distribution; iii) use waste heat from fossil fuel operations; and iv) are used in heavy industries, such as steel, cement and aluminium. Sustainalytics considers the above investments to be aligned with market practice.

¹³ Hydrogen Council, (2021), "Hydrogen decarbonization pathways", at: <https://hydrogencouncil.com/wp-content/uploads/2021/01/Hydrogen-Council-Report-Decarbonization-Pathways-Part-1-Lifecycle-Assessment.pdf>

¹⁴ CertifHy, "CERTIFICATION SCHEMES", at: <https://www.certifyhy.eu/go-labels/#:~:text=CERTIFY%20LOW%2DCARBON%20HYDROGEN&text=which%20is%20min.-,60%25%20below%20the%20production%20of%20hydrogen%20through%20steam%20reforming%20of,due%20to%20increase%20over%20time.>

- Under the Clean Transportation category, LBG may finance or refinance the development, sale, leasing, operation and upgrade of low-carbon transport and associated infrastructure in accordance with the following criteria:
 - Passenger vehicles and commercial vans with zero direct emissions
 - Related infrastructure, including electric vehicle charging stations and hydrogen fuelling stations for private and public transport in existing parking facilities
 - Infrastructure for personal mobility and cycling logistics, including footpaths and bike paths
 - Bi-mode and tri-mode rolling stock vehicles primarily used in electric mode. LBG has confirmed to Sustainalytics that: i) the vehicles meet the thresholds of 50 gCO₂e/pkm for passenger rail and 25 gCO₂e/tkm for freight rail; ii) diesel is only used when electrified overhead wires or third rail are not available; and iii) the Bank conducts due diligence assessments on the thresholds prior to the investment.
 - Infrastructure for public transportation, including metro and railway stations and tracks
 - Research and development of batteries dedicated to low-carbon transportation
 - Buses with Zero Emission Bus certification¹⁵

Sustainalytics notes that the Framework excludes the financing of vehicles and infrastructure dedicated to the transportation of fossil fuels, development and improvement of transport links to airports, and road infrastructure retrofits, including roads, road bridges and parking facilities. Sustainalytics considers the above activities to be in line with market practice.

- Under the Affordable Housing category, LBG may finance or refinance the following:
 - Assets eligible for UK-accredited or registered housing associations involved in the construction, management or refurbishment of properties for: i) social rent; ii) affordable rent; iii) shared ownership; or iv) supported housing, according to the following criteria:
 - LBG defines social rent properties as homes provided by local authorities and housing associations, whose rent levels are approximately 50-60% of market rents in the local area and whose rent increases are limited by the UK Government. The Bank defines affordable rent properties as homes provided by local authorities and housing associations with controls that ensure rents charged do not exceed 80% of local market rent.¹⁶ Sustainalytics views financing related to social and affordable rented housing in the UK as credible and impactful.
 - LBG may finance accredited UK-based housing associations that provide affordable housing under the UK Government's Shared Ownership scheme, which sells homes to people for whom open-market purchases would otherwise be unattainable.¹⁷ Purchasers buy a share of the property and pay rent on the remaining value. Eligibility for the scheme is determined by government criteria limiting eligible households to those with gross annual income of up to GBP 80,000 (EUR 92,900) outside of London or GBP 90,000 (EUR 104,500) in London.¹⁸ Sustainalytics acknowledges that the scheme follows the practice for affordable housing as determined by the local regulator and recognizes the expected benefits for many first-time home buyers. In Sustainalytics' opinion, in order to ensure a contribution to increasing access to affordable housing, it is best practice to define a target population with an upper threshold at or below the annual median income at the municipal or regional level. Although the Framework follows the government's income cap, this is still well above the median fifth-decile annual gross household income in the UK, which was GBP 44,717 (EUR 51,900) in FY2022.¹⁹ Given the relatively high thresholds

¹⁵ Zero Emission Bus: <https://www.zemo.org.uk/work-with-us/buses-coaches/low-emission-buses/zero-emission-bus-certificates.htm>

¹⁶ Barton, C. et al. (2022), "What is affordable housing?", UK Parliament, at: <https://commonslibrary.parliament.uk/research-briefings/cbp-7747/>

¹⁷ UK Government, "Shared Ownership", at: <https://www.ownyourhome.gov.uk/scheme/shared-ownership/>

¹⁸ Ibid.

¹⁹ UK Government, Office for National Statistics, "Average household income, UK: financial year ending 2022", at:

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/householddisposableincomeandinequality>

used by the UK Government's Shared Ownership scheme, Sustainalytics encourages LBG to report on the positive social impact of its financing allocated to below-median-income populations through housing associations, to the extent possible.

- To support accommodation for vulnerable population groups in the UK that require supervision or care to live independently, LBG intends to target housing associations involved in the provision of supported housing. The UK Government has developed a National Statement of Expectations for the supported housing sector and announced in 2018 that costs for supported housing would be funded by the Housing Benefit.²⁰ Sustainalytics notes that the supported housing sector is diverse, with considerable variation among housing providers, schemes and associated support services, such as those offered by local council housing, housing associations, voluntary organizations and charities. Sustainalytics also notes that the Framework restricts financing for supported housing projects to housing providers identified as such by the UK Government.²¹

Sustainalytics is of the opinion that the financing of housing associations is expected to enhance access to affordable housing in the UK, and therefore views these investments as socially impactful. Sustainalytics notes that LBG's role is limited to providing financing to housing associations for the development, refurbishment, operation and improvement of affordable housing as described above, and that LBG does not have control over the detailed criteria for determining the low-income groups deemed eligible for the housing associations' properties and the corresponding affordability mechanisms. In this regard, Sustainalytics encourages LBG, where feasible, to provide disclosure on the affordable housing programmes financed and relevant beneficiaries, and to report on the social impact achieved as part of its annual reporting commitments.

- Project Evaluation and Selection:
 - LBG has established a Sustainable Bond Committee chaired by the Group Treasurer or deputy. The Committee comprises representatives from the Group's Corporate Treasury, Sustainable Business, Environmental Sustainability, Risk, Finance Sustainability Reporting, Legal, Conduct Compliance and Operational Risk, and Portfolio Analytics departments and other divisions. The committee is responsible for evaluating, selecting and monitoring eligible assets against the eligibility criteria set in the Framework.
 - LBG will identify, manage and mitigate environmental and social risks through an internal ESG credit risk framework that comprises policies and processes designed to assess customers' activities. For additional details, please see Section 2.
 - Based on the defined role and responsibility for project evaluation and selection and the presence of risk management processes, Sustainalytics considers LBG's project evaluation and selection process to be in line with market expectations.
- Management of Proceeds:
 - The Sustainable Bond Committee will be responsible for the management of proceeds using a portfolio approach and will track the allocation of proceeds using an internal tracking system.
 - The Bank will allocate the net proceeds at the time of issuance.
 - Pending allocation, proceeds will be temporarily held in cash or short-term liquid investments.
 - Based on the presence of an internal tracking system and disclosure of temporary allocation of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - LBG is committed to reporting on the allocation of proceeds on an annual basis, and to reporting on the corresponding impact in a timely manner in a separate report, which will be available on the Bank's website.

²⁰ UK Government, "Funding for Supported Housing", (2018), at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732692/Supported_Housing_Funding_Consultation_Response.pdf

²¹ UK Government, "Supported housing: national statement of expectations", (2020), at: <https://www.gov.uk/government/publications/supported-housing-national-statement-of-expectations#:~:text=In%20supported%20housing%2C%20accommodation%20is,people%20with%20a%20learning%20disability>

- Allocation reporting will include the size of the green and social portfolios by number of loans and balances at a category level, the amount raised through bond issuance and allocated to eligible assets, and the balance of unallocated proceeds.
- Impact metrics may include annual estimated carbon emissions avoided (in tCO₂e) and number of social housing companies supported, amongst others.
- Based on LBG's commitment to report on allocation and impact, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021 and Social Bond Principles 2023

Sustainalytics has determined that the Lloyds Banking Group Sustainable Bond Framework aligns with the four core components of the GBP and SBP. For detailed information, please refer to Appendix 1: Sustainability Bond/Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of LBG

Contribution to LBG's sustainability strategy

LBG focuses on the following environmental and social areas in its sustainability strategy: i) reaching net zero through green financing activities and transition activities; ii) biodiversity protection; and iii) promotion of social housing and SMEs.^{22,23}

LBG became a signatory to the Net-Zero Banking Alliance in April 2021. To reach its net zero goal, the Bank has set the following intermediate targets: i) halving its emissions linked to financing and lending activities and emissions from the suppliers by 2030; ii) reaching net zero emissions in its operations by 2030; and iii) reducing its direct carbon emissions by at least 90% by 2030.²⁴ In this context, LBG has in place sector-specific transition pathways for oil and gas, thermal coal and the retail motor industry, power, automotive original equipment manufacturers, aviation and residential real estate.²⁵ These pathways set sector-specific intermediate targets, identify investment opportunities and risks, and establish engagement strategies. LBG also launched corresponding pathways for commercial and residential real estate, road passenger transport and agriculture in 2023.²⁶ In the end of 2023, the Bank's commercial green banking portfolio exceeded its 2024 target by reaching GBP 15.8 billion (EUR 18.5 billion).²⁷ In this context, the Bank established a new target of reaching GBP 30 billion (EUR 35.1 billion) by 2026. Since 2022, the Bank has provided GBP 5.7 billion (EUR 6.7 billion) to finance electric vehicles and plug-in hybrids, and GBP 7.5 billion (EUR 8.9 billion) for green mortgages; LBG aims to increase its financing in these categories to GBP 8 billion (EUR 9.2 billion) and GBP 10 billion (EUR 11.6 billion), respectively, by the end of 2024.²⁸

Regarding biodiversity conservation, the Bank completed a nature materiality assessment for its retail portfolio, suppliers and commercial banking portfolio in 2023.²⁹ LBG has also established a thematic stewardship programme through which the Bank engages with asset managers and relevant investee companies to monitor and challenge their strategies and voting policies related to biodiversity, conservation, water quality, waste management and nature-based solutions. LBG aims to extend its analysis to clients' supply chains and pension funds managed by the Bank's subsidiary Scottish Widows.^{30,31}

Regarding social impact, the Bank provided GBP 17 billion (EUR 19.9 billion) to social housing since 2018, which helped to build 35,000 new homes.³² The Bank has set a target to finance one million social homes in the next 10 years.³³ In 2022, the Bank dedicated GBP 1 billion (EUR 1.2 billion) to sustainability retrofits of

²² LBG, "Building a sustainable and inclusive future", (2023): at: <https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2023/q4/2023-lbg-sustainability-report.pdf>

²³ LBG, "Social Sustainability Report 2022", at: <https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2022/full-year/2022-lbg-social-sustainability-report.pdf>

²⁴ LBG, "Building a sustainable and inclusive future", (2023): at: <https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2023/q4/2023-lbg-sustainability-report.pdf>

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ LBG, "Building a sustainable and inclusive future", (2023): at: <https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2023/q4/2023-lbg-sustainability-report.pdf>

³⁰ Scottish Widows: <https://www.scottishwidows.co.uk/>

³¹ Ibid.

³² LBG, "Social Sustainability Report 2022", at: <https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2022/full-year/2022-lbg-social-sustainability-report.pdf>

³³ LBG, "Building a sustainable and inclusive future", (2023): at: <https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2023/q4/2023-lbg-sustainability-report.pdf>

existing houses to increase their energy efficiency, which corresponds to half of its total annual investment on social housing that year.

Sustainalytics is of the opinion that the Lloyds Banking Group Sustainability Bond Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further LBG's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that proceeds from the instruments issued under the Framework are intended to be directed towards projects expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Sustainalytics acknowledges that the Bank plays a limited role in the construction and implementation of specific projects but notes that it is exposed to risks associated with companies or projects to which it provides lending and financial services. Some key environmental and social risks possibly associated with the eligible projects may include issues involving emissions, effluents and waste generated in construction; land use and biodiversity loss associated with large-scale infrastructure development; human and labour rights issues (including occupational health and safety); and risks related to bribery, corruption and predatory lending.

Sustainalytics is of the opinion that LBG is able to manage and mitigate potential risks through the implementation of the following:

- LBG's expects all of its clients to commit to ensuring robust ESG risk management, including compliance with applicable GHG emissions targets, related monitoring and reporting within the framework of the Financial Reporting Council³⁴ or the Task Force on Climate-related Financial Disclosures (TCFD),³⁵ and alignment with the UN Global Compact.³⁶ Furthermore, as per the TCFD recommendations, the Bank has established sector-specific statements for high-risk industries, including power, coal, mining, oil and gas, forestry, defence, manufacturing of plastics, automotive, agriculture and shipping. The statements outline the Bank's exclusion and financing criteria as well as transition strategies in respective sectors. The Bank also expects companies in such sectors to commit to the Science Based Targets initiative. Furthermore, the Bank's credit approval process in its commercial banking unit includes a sustainability assessment for all new and renewed credit applications exceeding GBP 500,000 (EUR 579,785).³⁷ The assessment includes an industry-level climate risk rating and analysis of the client's decarbonization plan and potential reputational risks.³⁸
- Regarding risks related to the development of large-scale infrastructure, the UK Government's Town and Country Planning (Environmental Impact Assessment) Regulations (2017) require an environmental impact assessment for projects that are likely to have significant environmental impact, to ensure adequate assessment of associated risks prior to approval.³⁹ In November 2023, the law will require all infrastructure projects to demonstrate a minimum 10% biodiversity gain, in addition to a biodiversity gain plan.⁴⁰ Furthermore, the Environment Act (2021) sets national standards for waste management, resource efficiency, air and water quality, and biodiversity and habitat conservation.⁴¹
- LBG's ESG Risk Tool includes an assessment of its clients' compliance with local regulations on occupational health and safety, including the UK's Health and Safety at Work Act (1974).⁴² Per this act, employers are required to provide a safe working environment through maintenance of equipment and provision of relevant training, information and supervision. Under LBG's Human Rights Policy,⁴³ the Bank expects its clients to respect human rights in its workforce and supply chain,

³⁴ Financial Reporting Council, "FRC work on ESG and Climate related reporting", at: <https://www.frc.org.uk/frc-esg-work-and-climate-reporting>

³⁵ TCFD: <https://www.fsb-tcdf.org/>

³⁶ UN Global Compact, "The Power of Principles", at: <https://unglobalcompact.org/what-is-gc/mission/principles>

³⁷ LBG, "LBG External Sector Statements", (2024), at: <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/responsible-business/downloads/group-codes-and-policies/lbg-external-sector-statements.pdf>

³⁸ LBG has shared the details of its ESG risk management system with Sustainalytics.

³⁹ UK Government, "The Town and Country Planning (Environmental Impact Assessment) Regulations 2017", at: <https://www.legislation.gov.uk/uksi/2017/571/regulation/2/made>

⁴⁰ Local Government Association, "Biodiversity Net Gain FAQs - Frequently Asked Questions", at: <https://www.local.gov.uk/pas/topics/environment/biodiversity-net-gain-local-authorities/biodiversity-net-gain-faqs#:~:text=Minimum%2010%25%20gain%20required%20calculated,statutory%20biodiversity%20credits%20scheme%3B%20and>

⁴¹ UK Government, "Environment Act 2021", at: <https://www.legislation.gov.uk/ukpga/2021/30/contents/enacted>

⁴² UK Government, "UK's Health and Safety at Work Act (1974)", at: <https://www.legislation.gov.uk/ukpga/1974/37/contents>

⁴³ LBG, "Human Rights Policy Statement", (2021), at: <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/responsible-business/downloads/group-codes-and-policies/human-rights-policy-statement-2021.pdf>

and requires compliance with applicable international conventions and local laws, such as the International Bill of Human Rights,⁴⁴ the ILO's Core Labour Standards and Tripartite Declaration of Principles,⁴⁵ the OECD's Guidelines for Multinational Enterprises,⁴⁶ and the UN's Guiding Principles on Business and Human Rights.⁴⁷ The Bank also joined the United Nations Global Compact in 2016 and reports on its progress annually.⁴⁸ Furthermore, the Bank's Modern Slavery and Human Trafficking Statement, which outlines the Bank's processes for assessing risks, due diligence and reporting in this area, which is aligned with the UK Modern Slavery Act,⁴⁹ also applies to the Bank's subsidiaries and their respective employees and officers.⁵⁰

- LBG's Economic Crime Prevention Policies establish the Bank's commitment to detect, prevent, mitigate and manage economic crimes, including bribery, corruption, fraud, money laundering and financing of terrorism, in compliance with relevant regulation, including the UK's Bribery Act (2010),⁵¹ Proceeds of Crime Act (2002),⁵² Anti-terrorism, Crime and Security Act (2001),⁵³ and Money Laundering and Terrorist Financing Regulations (2020).^{54,55,56} In addition, LBG's code of ethics guides the Bank's employees on ethical and responsible business behaviour, data privacy and receiving gifts. The Bank has also established an anonymous and independent whistleblower tool, which is available to all employees, contractors and suppliers via phone or email.⁵⁷
- Regarding predatory lending, LBG follows UK regulations, including the Financial Conduct Authority's Consumer Duty, which mandates all financial service providers to provide high-quality support, clear communication and fairly valued products, and to ensure additional consideration with regard to vulnerable clients.⁵⁸ LBG trains all of its customer-facing employees to respond to, record and take practical action with clients in vulnerable situations.⁵⁹
- All projects under the green and social use of proceeds categories will be financed in the United Kingdom, which is recognized as a Designated Country under the Equator Principles, indicating the presence of strong environmental and social governance systems, legislation and institutional capacity to mitigate environmental and social risks associated with projects intended to be financed and refinanced under the Framework.⁶⁰ Furthermore, LBG has been a member of the Equator Principles for financial institutions since 2008 and reports on its progress annually.⁶¹

Based on these policies, standards and assessments, Sustainalytics is of the opinion that LBG has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

⁴⁴ United Nations, "General Assembly Resolution 217A", (1948), at: [http://undocs.org/en/A/RES/217\(III\)](http://undocs.org/en/A/RES/217(III))

⁴⁵ ILO, "ILO Declaration on Fundamental Principles and Rights at Work", (1998), at: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---declaration/documents/normativeinstrument/wcms_716594.pdf

⁴⁶ OECD, "Guidelines for Multinational Enterprises on Responsible Business Conduct", (2023), at: <https://doi.org/10.1787/81f92357-en>

⁴⁷ OHCHR, "Guiding Principles on Business and Human Rights", (2011), at:

https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf

⁴⁸ United Nations Global Compact, "Lloyds Banking Group", at: <https://unglobalcompact.org/what-is-gc/participants/78301-Lloyds-Banking-Group>

⁴⁹ UK Government, "Modern Slavery Act 2015", at: <https://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>

⁵⁰ LBG, "Modern slavery and human trafficking statement 2022", at: https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/responsible-business/downloads/group-codes-and-policies/2022-lbg-modern_slavery_statement.pdf

⁵¹ LBG, "Economic Crime Prevention Policy: Anti-Bribery Statement", (2023), at: <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/responsible-business/downloads/group-codes-and-policies/lbg-anti-bribery-policy-statement-june-2023.pdf>

⁵² UK Government, "Proceeds of Crime Act 2002", at: <https://www.legislation.gov.uk/ukpga/2002/29/contents>

⁵³ UK Government, "Anti-terrorism, Crime and Security Act 2001", at: <https://www.legislation.gov.uk/ukpga/2001/24/contents>

⁵⁴ UK Government, "The Money Laundering and Terrorist Financing Regulations 2020", at: <https://www.legislation.gov.uk/uksi/2020/991/contents/made>

⁵⁵ LBG, "Economic Crime Prevention Policy: Anti-Money Laundering and Counter Terrorist Financing", (2022), at:

<https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/working-with-suppliers/third-party-policies/aml-third-party-supplier-policy.pdf>

⁵⁶ LBG, "Economic Crime Prevention Policy: Fraud Risk Management", (2021), at: <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/working-with-suppliers/third-party-policies/fraud-risk-management-third-party-policy-may-2021.pdf>

⁵⁷ LBG, "Code of Ethics and Responsibility", at: <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/responsible-business/downloads/group-codes-and-policies/2022-lbg-code-of-ethics-and-responsibility.pdf>

⁵⁸ UK Financial Conduct Authority, "Consumer Duty sets higher standards for financial services customers", (2023), at:

<https://www.fca.org.uk/news/news-stories/consumer-duty-higher-standards-financial-services>

⁵⁹ LBG, "Social Sustainability Report 2022", at: <https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2022/full-year/2022-lbg-social-sustainability-report.pdf>

⁶⁰ Equator Principles, "About the Equator Principles", at: <https://equator-principles.com/about-the-equator-principles/>

⁶¹ Equator Principles, "Lloyds Banking Group", (2022), at: <https://equator-principles.com/report/lloyds-banking-group-plc-2022/>

Section 3: Impact of Use of Proceeds

All five use of proceeds categories are aligned with those recognized by the GBP or SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

Importance of financing energy improvements in the UK residential building stock

The UK buildings and product uses sector was responsible for approximately 20% of the country's total GHG emissions in 2023, with the residential sector making up nearly 67% of these emissions.⁶² The UK housing stock is the oldest in Europe, with 20.6% of houses built before 1919. Approximately 68% of the housing stock in the UK has uninsulated cavity walls and is therefore energy inefficient.^{63,64} In addition, a large share of the energy consumed homes in the UK is generated from fossil fuels, with gas boilers being the primary heating source for 78% of homes in 2022.⁶⁵

The UK's Integrated National Energy and Climate Plan sets a target to achieve countrywide net zero emissions by 2050.⁶⁶ In this context, the UK has established intermediate milestones to reduce emissions by 68% by 2030 and 78% by 2035 relative to 1990 levels.⁶⁷ To meet these targets, GHG emissions from existing residential buildings and non-residential buildings will need to be reduced by an estimated 50% and 57%, respectively, by 2035, and all new homes will need to be net zero ready by 2025.^{68,69} In addition, existing buildings will require deep energy retrofits and new developments will have to meet increasingly stringent standards, including strategies to reduce construction impacts and improve operational energy use and energy efficiency.⁷⁰

Based on the above, Sustainalytics expects LBG's financing of green buildings in the UK to contribute to reducing GHG emissions and energy consumption in the buildings sector in the UK, and to support the UK in achieving its climate targets.

Importance of financing affordable housing in the UK

The UK is experiencing a significant housing shortage, evidenced by the estimated 8.5 million people in England alone with some form of housing need in 2021.⁷¹ Although the UK had the highest share of social housing among OECD countries as of 2020,⁷² more than 1 million households were on social housing waiting lists⁷³ and the price-income ratio deteriorated from 2.9 to 6.7 in the UK between 1995 and 2021.⁷⁴ As a result, more than half of the population spend more than 40% of their income on rent.⁷⁵ In addition, nearly half of families across the country cannot afford mid-range property.⁷⁶ This issue especially affects families with children in the UK, where 30% of families living in privately rented apartments are paying rents they cannot

⁶² UK Department for Business, Energy and Industrial Strategy, "2023 UK greenhouse gas emissions, provisional figures", (2024), at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1064923/2021-provisional-emissions-statistics-report.pdf<https://assets.publishing.service.gov.uk/media/6604460f91a320001a82b0fd/uk-greenhouse-gas-emissions-provisional-figures-statistical-release-2023.pdf>

⁶³ UK Green Building Council, "Climate Change", (2022), at: <https://www.ukgbc.org/climate-change-2/>

⁶⁴ Piddington, J. et al. (2020), "The Housing Stock of The United Kingdom", BRE Trust, at: https://files.bregroup.com/bretrust/The-Housing-Stock-of-the-United-Kingdom_Report_BRE-Trust.pdf

⁶⁵ Statista, "What is the main way you heat your property during the winter?", (2022), at: <https://www.statista.com/statistics/426988/united-kingdom-uk-heating-methods/>

⁶⁶ UK Department for Business, Energy & Industrial Strategy, "The UK's Integrated National Energy and Climate Plan", (2020), at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1064923/2021-provisional-emissions-statistics-report.pdf

⁶⁷ UK Government, "UK enshrines new target in law to slash emissions by 78% by 2035", (2021), at: <https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035>

⁶⁸ UK Green Building Council, "Net Zero Whole Life Carbon Roadmap", (2021), at: <https://ukgbc.s3.eu-west-2.amazonaws.com/wp-content/uploads/2021/11/28194152/UKGBC-Whole-Life-Carbon-Roadmap-A-Pathway-to-Net-Zero.pdf>

⁶⁹ UK Government, "New homes to produce nearly a third less carbon", (2021), at: <https://www.gov.uk/government/news/new-homes-to-produce-nearly-a-third-less-carbon>

⁷⁰ UK Green Building Council, "Net Zero Carbon Buildings: A Framework Definition", (2019), at: <https://www.ukgbc.org/ukgbc-work/net-zero-carbon-buildings-a-framework-definition/>

⁷¹ National Housing Federation, "People in housing need 2021", at: <https://www.housing.org.uk/resources/people-in-housing-need-2021/>

⁷² OECD, "Affordable Housing Database", at: <http://www.oecd.org/housing/data/affordable-housing-database/>

⁷³ Shelter, "Social housing deficit", at:

https://england.shelter.org.uk/support_us/campaigns/social_housing_deficit#:~:text=Over%201%20million%20households%20are,less%20than%207%2C000%20were%20built.

⁷⁴ Hilber, C. et al. (2022), "Why is it so difficult to tackle the lack of affordable housing?," The London School of Economics and Political Science, at: <https://blogs.lse.ac.uk/politicsandpolicy/why-is-it-so-difficult-to-tackle-the-lack-of-affordable-housing/>

⁷⁵ OECD, "OECD Affordable Housing Database", at: <https://www.oecd.org/els/family/HCI-2-Housing-costs-over-income.pdf>

⁷⁶ Kirk, A. et al., (2023), "Find out where you can afford to buy or rent in Great Britain", The Guardian, at: <https://www.theguardian.com/society/ng-interactive/2023/jun/12/interactive-tool-that-shows-where-you-can-afford-to-buy-or-rent-home-great-britain>

reasonably afford due to high property prices and lack of social housing.⁷⁷ According to the National Housing Federation, the number of children in poverty who live in privately rented homes increased by 69% between 2008 and 2019, reaching 1.3 million in 2019.⁷⁸

The UK Government has set targets to build 300,000 homes annually by the mid-2020s and dedicate 162,000 homes annually for affordable housing.^{79,80} The COVID-19 pandemic delayed construction of an estimated 100,000 affordable housing units in the UK, but the sector shows signs of recovery,⁸¹ partly due to the UK Government's announcement that it would provide GBP 11.5 billion (EUR 13.2 billion) in capital funding through the Affordable Homes Programme to construct 180,000 additional homes by 2026.^{82,83}

Based on the above, Sustainalytics is of the opinion that LBG's financing of affordable housing is expected to contribute to increasing access to housing for targeted populations and communities in the UK.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Lloyds Banking Group Sustainable Bond Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	11. Sustainable Cities and Communities	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency.
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
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.

⁷⁷ Hetherington, G. (2021), "Invest in social housing to fix 'policy black hole' for almost 1m families paying private rents they can't afford", Joseph Rowntree Foundation, at: <https://www.jrf.org.uk/press/invest-social-housing-fix-policy-black-hole-almost-1m-families-paying-private-rents-they-cant>

⁷⁸ National Housing Federation, "Half a million more children in poverty in private rented homes than ten years ago", at: <https://www.housing.org.uk/news-and-blogs/news/half-a-million-more-children-in-poverty-in-private-rented-homes-than-ten-years-ago/>

⁷⁹ Milcheva, S. et al. (2022), "Scoping Report for the Evaluation of the Affordable Homes Programme 2021-2026", Department of Levelling up, Housing and Communities, at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1096533/Scoping_Report_for_the_Evaluation_of_the_Affordable_Homes_Programme_2021-26_FINAL.pdf

⁸⁰ Elliot, J. et al. (2021), "Renters on low incomes face a policy black hole: homes for social rent are the answer", Joseph Rowntree Foundation, at: <https://www.jrf.org.uk/file/58800/download?token=52fzupQE&filetype=briefing>

⁸¹ Leckie, C et al. (2021), "Building post-pandemic prosperity", Pragmatix Advisory, at: <https://www.local.gov.uk/sites/default/files/documents/2021-09-14%20Arch%2C%20LGA%2C%20NFA%20final%20report.pdf>

⁸² National Housing Federation, "Affordable Homes Programme 2021-26", at: <https://www.housing.org.uk/link/9e36ccf90a0d4d05908067f27be3d1fa.aspx>

⁸³ UK Ministry of Housing, Communities & Local Government, "Jenrick unveils huge £12 billion boost for affordable homes", (2020), at: <https://www.gov.uk/government/news/jenrick-unveils-huge-12-billion-boost-for-affordable-homes>

Conclusion

LBG has developed the Lloyds Banking Group Sustainable Bond Framework under which it may issue green or social senior unsecured bonds, secured bonds, subordinated bonds, covered bonds and commercial paper, and use the proceeds to finance commercial and residential buildings, renewable energy projects, energy efficiency technologies, low-carbon transport and associated infrastructure, and affordable housing projects. Sustainalytics considers that the eligible projects are expected to provide positive environmental or social impact.

The Lloyds Banking Group Sustainable Bond Framework outlines processes for tracking, allocation and management of proceeds, and makes commitments for LBG to report on allocation and impact. Sustainalytics believes that the Lloyds Banking Group Sustainable Bond Framework is aligned with LBG's overall sustainability strategy and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 7 and 11. Additionally, Sustainalytics considers that LBG has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that LBG is well positioned to issue green or social senior unsecured bonds, secured bonds, subordinated bonds, covered bonds and commercial papers, and that the Lloyds Banking Group Sustainable Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Social Bond Principles 2023.

Appendices

Appendix 1: Sustainable Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Lloyds Banking Group
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	Lloyds Banking Group Sustainable Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	April 23, 2024
Publication date of review publication: Original publication date <i>[please fill this out for updates]:</i>	

Section 2. Review overview

SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
 - Use of Proceeds
 - Management of Proceeds
 - Process for Project Evaluation and Selection
 - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Verification
- Other (please specify):
- Certification
- Scoring/Rating

Does the review include a sustainability quality score?

- Of the issuer
- Of the Framework
- Of the project
- Other (please specify):

No scoring

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

CLIMATE TRANSITION STRATEGY

Does the review assess:

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

Overall comment on this section:

Section 3. Detailed Review

1. USE OF PROCEEDS

Does the review assess:

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

Overall comment on this section:

The eligible categories for the use of proceeds Green Buildings, Renewable Energy, Energy Efficiency, Clean Transportation, Affordable Housing, are aligned with those recognized by the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 7 and 11.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Does the review assess:

- whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones. Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.
- whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section:

LBG's Sustainable Bond Committee (the "Committee") will evaluate, select and monitor eligible projects. The Committee comprises representatives from the Group's Corporate Treasury, Sustainable Business, Environmental Sustainability, Risk, Finance Sustainability Reporting, Legal, Conduct Compliance and Operational Risk, Portfolio Analytics and divisional representatives. LBG has internal processes to address environmental and social risks associated with the eligible assets. Sustainalytics considers these processes to be in line with market practice.

3. MANAGEMENT OF PROCEEDS

Does the review assess:

- the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- the intended types of temporary investment instruments for unallocated proceeds?
- Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section:

LBG's Sustainable Bond Committee will be responsible for the management and allocation of proceeds to eligible projects through an internal tracking system. The Bank will allocate the net proceeds at the time of issuance. ending allocation, proceeds will be temporarily held in cash or short-term liquid investments. Sustainalytics considers this to be in line with market practice.

4. REPORTING

Does the review assess:

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- the frequency and the means of disclosure?

the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Overall comment on this section:

LBG intends to report on the allocation of proceeds on its website on an annual basis. This report will include the size of the green and social portfolios by number of loans and balances at a category level, the amount raised through bond issuance and allocated to eligible assets and the balance of unallocated proceeds. In addition, LBG is committed to reporting on relevant impact metrics. Sustainalytics views LBG's allocation and impact reporting commitments as aligned with market practice.

Section 4. Additional Information

Useful links (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:

Additional assessment in relation to the issuer/bond framework/eligible project(s):

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

- i. Second-Party Opinion: An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. Certification: An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Social Bond Scoring/Rating: An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 16 offices globally, Sustainalytics has more than 1,800 staff members, including more than 800 analysts with varied multidisciplinary expertise across more than 40 industry groups.

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