

Second-Party Opinion

Lloyds Bank Sustainability Bond

Evaluation Summary

Sustainalytics is of the opinion that the Lloyds Bank Sustainability Bond Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles and/or Social Bond Principles. Sustainalytics considers the projects funded – SME lending, healthcare sector lending, green real estate, and renewable energy – to have positive environmental and social impacts and to advance the UN Sustainable Development Goals.



PROJECT EVALUATION / SELECTION Lloyds’ Commercial Banking Client Asset Management (CAM) business is responsible for project selection, and will ensure that all projects funded are aligned with the criteria of the Framework. Sustainalytics considers this to be in line with market practice.



MANAGEMENT OF PROCEEDS Lloyds’ CAM business will produce a monthly internal report to verify that proceeds have been allocated to eligible assets, which will receive sign-off from senior management. Pending allocation, funds may be held in liquid assets. Sustainalytics considers this to be in line with market practice.



REPORTING Lloyds will produce annual allocation reports, a final allocation report once the proceeds are fully allocated, and annual compliance reports thereafter for the life of the bond. Quantitative impact metrics have been proposed for each category, and Lloyds will report against these metrics until the bond is fully allocated. Sustainalytics considers this reporting to be in line with market practice, and encourages transparent reporting of impact metrics.

Evaluation date	May 2, 2019
------------------------	-------------

Issuer Location	London, United Kingdom
------------------------	------------------------

Report Sections

Introduction.....	2
Sustainalytics’ Opinion	3
Appendices	9

For inquires, contact the Sustainable Finance Solutions project team:

Joshua Zakkai (Amsterdam)
 Project Manager
joshua.zakkai@sustainalytics.com
 (+31) 20 205 00 79

Zach Margolis (Toronto)
 Project Lead
zach.margolis@sustainalytics.com
 (+1) 647 695 4341

Jean-Claude Berthelot (Amsterdam)
 Client Relations
jean-claude.berthelot@sustainalytics.com
 (+31) 20 205 00 15

Introduction

Lloyds Banking Group (“Lloyds”, “the Issuer”, or “the Bank”) is Britain’s largest retail bank, founded in 1766, which today serves over 27 million customers and operates 1,300 branches in England and Wales.

Lloyds Bank has developed the Lloyds Sustainability Bond Framework (the “Framework”) under which it is planning to issue sustainability bond(s) and use the proceeds to finance or refinance, in whole or in part, loans to businesses or projects that deliver positive environmental or social benefits and advance elements of the Bank’s Helping Britain Prosper plan, namely supporting businesses to start up and grow, supporting the transition to a low carbon economy, and tackling social disadvantage across Britain. The Framework defines eligibility criteria in four areas:

1. Lending to SMEs located in the 30% most economically disadvantaged areas in the UK
2. Lending to healthcare providers located in the 30% most economically disadvantaged areas in the UK
3. Energy efficient real estate assets
 - a. Commercial properties obtain either a minimum of BREEAM Very Good (provided a minimum score of 70% is achieved in the energy category) or an EPC rating of B or higher
 - b. Residential properties obtaining an EPC Environmental Impact rating of B or higher
4. Renewable energy projects in the UK and abroad
 - a. Offshore wind farms and their associated transmission assets
 - b. Onshore wind farms
 - c. Solar energy
 - d. Tidal energy

Lloyds engaged Sustainalytics to review the Lloyds Bank Sustainability Bond Framework dated March 2019 and provide a second-party opinion on the alignment of the framework with the Sustainability Bond Guidelines 2018 (the “SBG”),¹ as administered by the International Capital Market Association (the “ICMA”),² and the Framework’s environmental and social credentials. This Framework has been published in a separate document which can be found on the Lloyds Banking Group website.³

As part of this engagement, Sustainalytics held conversations with the elected executive sponsors of Lloyds’ sustainability bond program to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Bank’s sustainability bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Lloyds Bank Sustainability Bond Framework and should be read in conjunction with that Framework.

¹ 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.

² ICMA’s Sustainability Bond Guidelines 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

³ <https://www.lloydsbankinggroup.com/investors/fixed-income-investors/unsecured-funding/>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Lloyds Bank Sustainability Bond Framework

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

- Use of Proceeds:
 - The Eligible Categories for the Use of Proceeds are recognized as impactful by the Green Bond Principles and the Social Bond Principles.
 - The sustainability bond will include lending to SMEs⁴ located in the 30% most economically disadvantaged areas of the UK.⁶ Sustainalytics considers SME lending, broadly, to have social benefits, and views the restriction to disadvantaged regions as a further strength.
 - The Framework includes lending to healthcare providers located in the 30% most economically disadvantaged areas of the UK. Given that the UK's healthcare system is publicly funded with high levels of overall accessibility,⁷ and considering that Lloyds has prioritized services for vulnerable groups by specifically targeting disadvantaged areas, Sustainalytics believes the use of proceeds can contribute to increase accessibility to healthcare in the selected areas.
 - Sustainalytics recognizes that the GBP, SBP and SBG prefer project-based lending and financing, and that there is, in general, less transparency with non-project-based lending. While lending to SMEs allows for the inclusion of non-project-based lending, Sustainalytics considers that the lending contemplated by the Framework will have social benefits.
 - Eligible renewable energy projects are defined as on-shore and off-shore wind, solar, and tidal energy. When developed responsibly, with proper due diligence and consideration for environmental and social risks, these energy technologies are considered to have net-positive overall impacts due to their provision of clean, low-carbon energy.
 - The Framework includes property development and property investment financing for commercial real estate projects as well as residential buildings, based on BREEAM certifications and EPC ratings.
 - The Framework defines as eligible BREEAM Outstanding, Excellent and certain Very Good buildings. Sustainalytics considers BREEAM to be a reputable scheme and views Excellent and above as indicative of strong performance. Furthermore, Sustainalytics views favourably that Lloyds has specified that only Very Good buildings that achieve 70% of available energy credits are eligible for inclusion; while Very Good on its own may be indicative of some improvement in environmental performance, the additional threshold selected ensures that only buildings providing significant benefits are included. Refer to Appendix 1 for an overview of the BREEAM scheme.
 - Most residential buildings in the UK are required to obtain EPCs. Buildings with an EPC EI rating⁸ of A or B make up the top 11% of the total stock of residential dwellings;⁹ the

⁴ Small and medium sized enterprises (SMEs) are defined by Lloyds as businesses with annual turnover of £3m-£25m. The UK Government defines SMEs based on number of employees; according to the Department for Business, Innovation & Skills, the average small sized enterprise (10-49 employees) had annual turnover of £2.6m while the average medium sized enterprise had an annual turnover of £15.4m.⁵

⁵ House of Commons Library, "Small Business and the UK economy", <http://researchbriefings.files.parliament.uk/documents/SN06078/SN06078.pdf>.

⁶ Lloyds has determined the 30% most economically disadvantaged areas based on Index of Multiple Deprivation (IMD) scores and postcode data. The IMD, calculated by the Department for Communities and Local Government, combines income, employment, health, education, housing, crime, and living environment statistics to provide a normalized score that can be compared across regions. See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/465791/English_Indices_of_Deprivation_2015_-_Statistical_Release.pdf.

⁷ In the UK healthcare is publicly funded by the National Health Service and includes universal access to medically necessary treatments with limited out of pocket payments. These services may include preventative medicine such as immunizations and screenings, general practitioner care, hospital services, prescription drugs, and various degrees of dental, vision, and mental health care. With exemptions for specified vulnerable groups, co-payments may be required for some services such as dental, drugs, medical appliances.

⁸ The Environmental Impact (EI) metric is one of two ratings that make up the residential EPC and represents the level of environmental performance, as represented by expected CO₂ emissions.

⁹ Ministry of Housing, Communities & Local Government, "Live tables on Energy Performance of Buildings Certificates", <https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates>.

Section 2: Sustainability Performance of the Issuer

Contribution of Framework to Issuer's sustainability strategy

Lloyds Bank's sustainability strategy is underpinned by its Helping Britain Prosper plan. This plan, first implemented in 2014, and most recently updated for 2019, lays out concrete actions and targets that the Bank intends to take to "support Britain's people, business, environment and communities"; seven thematic areas have been prioritized for action: helping first-time homebuyers, helping save for the future, supporting employability and digital skills, supporting businesses to start-up and grow, supporting a transition to a low carbon economy, tackling social disadvantage, and championing diversity.¹¹ The proceeds of the Lloyds Bank Sustainability Bond Framework will be specifically targeted towards advancing three of those goals: small business growth, the low carbon economy, and social disadvantage.

Since 2014, Lloyds has reported on the progress towards the targets laid out in the Helping Britain Prosper plan. Over the five-year span in which the plan has been active, the fulfilment rate for the various quantitative targets has ranged from 80% to 96%.¹² Lloyds has highlighted several specific achievements in 2018, including £12.4 billion in lending to first-time homebuyers, supporting over 124 thousand small businesses including over six thousand which are now exporting for the first time, supporting renewable energy facilities with the capacity to power 2.6 million homes, and transitioning 1.4 million square feet of real estate to a higher level of energy efficiency.¹³ In recognition of these achievements, as well as the Bank's sustainability progress more broadly, Lloyds was awarded the 2018 Responsible Business of the Year award by Business in the Community – The Prince's Responsible Business Network.¹⁴ As part of the Plan's 2019 update, the Bank has elected to prioritize "actions to help the UK transition to a low carbon economy".¹⁵

Based on the objectives and plans in place, as well as the setting and ongoing revision of quantitative targets, Sustainalytics views positively Lloyd's sustainability strategy, and is of the opinion that the Bank is well-positioned to issue sustainability bonds.

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

Sustainalytics recognizes that the Bank's financing for projects and companies related to healthcare and SME financing, green real estate, and renewable energy generate largely positive environmental and social impacts and contribute to the goals of the Helping Britain Prosper plan. Nevertheless, all projects possess some environmental and social risk. For the social use of proceeds categories, these risks may relate to inadvertently exacerbating existing inequalities, while for the buildings and energy projects there may be risks related to worker health and safety during construction, biodiversity impacts, and effects on local communities. Furthermore, by offering lending and financial services, banks are exposed to risks associated with financing controversial companies and/or projects, and activities that have negative social or environmental impacts. Sustainalytics is of the opinion that, despite the potential environmental and social risks associated with financing businesses and projects in the Eligible Categories, Lloyds is well positioned to identify and manage those risks due to:

- A Responsible Business Committee, charged with overseeing investments in its sustainable business areas, addressing how the bank will adapt to emerging challenges such as climate change, and reviewing how the Bank is maintaining the confidence of customers and employees.
- Environmental risk management is addressed through ongoing employee training and the use of an Environmental Risk Screening tool within the Commercial Banking team.¹⁶ The application of these tools will support in addressing the potential environmental impacts of construction projects.
- A stakeholder engagement process identifies how Lloyds will interact with key stakeholder groups including NGOs and communities.¹⁷ These processes are noted to be of particular importance for

¹¹ Lloyds Banking Group, "Our 2018 Helping Britain Prosper Plan." https://www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/reporting-centre/lbg_hbpp_full_plan_180216_final.pdf

¹² Lloyds Banking Group, "Helping Britain Prosper Plan 2014-2017 performance." https://www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/reporting-centre/performance-2014_17-final.pdf

¹³ Lloyds Banking Group, "Helping Britain Prosper Plan 2018 to 2020." https://www.lloydsbankinggroup.com/globalassets/documents/our-group/responsibility/hbpp-2019/2002-update/lbg_hbpp_full_plan_190220.pdf

¹⁴ The Prince's Responsible Business Network, "Responsible Business of the Year: Lloyds Banking Group." <https://www.bitc.org.uk/resources-training/resources/impact-stories/responsible-business-year-lloyds-banking-group-building>

¹⁵ Lloyds Banking Group, "Responsible Business." <https://www.lloydsbankinggroup.com/our-group/responsible-business/>

¹⁶ Lloyds Banking Group, "Annual Report and Accounts 2017."

https://www.lloydsbankinggroup.com/globalassets/documents/investors/2017/2017_lbg_annual_report_v3.pdf

¹⁷ Lloyds Banking Group, "Stakeholder engagement activity." https://www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/download-centre/lloyds-banking-group_stakeholder-engagement-table.pdf

Lloyds Bank Sustainability Bond

addressing risks related to impacts of projects on local communities, as they provide opportunities for local groups to provide input on the Bank's activities.

- Lending to any potential projects is subject to the enterprise-wide operational risk management policy, based on a three lines of defense model, whereby business lines have the primary responsibility for risk mitigation, with subsequent review by the central risk and finally, Group Audit. Following identification of potential eligible assets via these existing processes, Client Asset Management will ultimately decide whether projects qualify as an eligible use of proceeds for the bonds, as per the Lloyds Sustainability Bond Framework.
- A code of responsibility, under which the Bank's employees are accountable for the risks taken, and are obligated to prioritize customer needs in decision-making.¹⁸
- The Bank is a signatory to the UN Principles for Responsible Investment¹⁹ and adheres to the Equator Principles for relevant project finance transactions. Sustainalytics considers implementation of these initiatives as best practice in mitigating many risks associated with large infrastructure projects.
- A statement on modern slavery and human trafficking, laying out the steps the Bank takes to combat modern slavery throughout its business lines and supply chains, including awareness, financial crime prevention, and capacity-building.²⁰

Overall, Sustainalytics views positively Lloyds' procedures and policies, and consider the bank well-positioned to mitigate potential environmental and social risks related to the projects funded by the sustainability bonds.

Section 3: Impact of Use of Proceeds

All four use of proceeds categories are recognized as impactful by the Green or Social Bond Principles. Sustainalytics has focused below on how the impact is specifically relevant in the local context.

Lending to UK healthcare providers

Healthcare in the United Kingdom is carried out under the auspices of the National Health Service (NHS), which has universal access enshrined within its constitution.²¹ The provision of healthcare is split between primarily publicly-owned hospitals (including both NHS trusts and foundation trusts) and mainly privately-owned general practitioner practices. Regardless of the ownership structure, out-of-pocket payments for primary, secondary, and specialist care are limited, as is the use of supplementary private health insurance.²² According to the OECD, "access to care is generally good", "out-of-pocket payments are low", and "waiting times [...] are slightly better than the average but have slightly worsened in recent years."²³ Despite this overall high performance, inequalities in health outcome by region²⁴ and socioeconomic status²⁵ have been noted.

Sustainalytics notes that as hospitals and medical practices generally serve a specific local community, prioritized lending to service providers in disadvantaged areas will benefit local residents in these areas. Considering the overall success of the UK's healthcare model, the reliance upon privately run GP clinics as primary care providers and system gatekeepers, and the persistence of demographic disparities in health, Sustainalytics expects that Lloyds' focus on lending to healthcare providers in the 30% most disadvantaged regions will provide broad social benefits, which will accrue disproportionately to vulnerable groups.

¹⁸ Lloyds Banking Group, "Code of Business Responsibility." https://www.lloydsbankinggroup.com/globalassets/documents/our-group/responsibility/policies-and-codes/code_of_business_responsibility.pdf

¹⁹ Principles for Responsible Investments, "Lloyds Banking Group PRI reporting framework 2018." <https://reporting.unpri.org/surveys/PRI-reporting-framework-2018/582D01DB-407E-4BF1-9359-3DEB2A7BB4A9/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1>

²⁰ Lloyds Banking Group, "Modern Slavery and Human Trafficking Statement 2017." https://www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/reporting-centre/feb18_modern_slavery_2017_final.pdf

²¹ UK Department of Health & Social Care, "The NHS Constitution for England." <https://www.gov.uk/government/publications/the-nhs-constitution-for-england/the-nhs-constitution-for-england>

²² The Commonwealth Fund, "The English Health Care System." <https://international.commonwealthfund.org/countries/england/>

²³ OECD, "Health at a Glance 2017." <https://www.oecd.org/unitedkingdom/Health-at-a-Glance-2017-Key-Findings-UNITED-KINGDOM.pdf>

²⁴ Collinson, P. "Figures reveal huge inequalities in health and longevity across UK." <https://www.theguardian.com/society/2016/oct/11/figures-reveal-huge-inequalities-in-health-and-longevity-across-uk>

²⁵ OECD, "United Kingdom: Country Health Profile 2017." https://read.oecd-ilibrary.org/social-issues-migration-health/united-kingdom-country-health-profile-2017_9789264283589-en#page18

SME lending in economically disadvantaged regions

In the UK small and medium enterprises (SMEs) make up 60% of all private sector employment; the effective provision of financing to these businesses is therefore highly impactful with regards to economic performance and job growth.²⁶ Nevertheless, SMEs in the UK, as well as globally, often struggle to obtain suitable financial products.²⁷ With these factors considered, SME lending broadly can be viewed as economically and socially beneficial, especially in regions suffering from economic disparities.

To further ensure that social benefits accrue to vulnerable groups, Lloyds has specified that the SME lending funded by the proceeds of sustainability bonds will be directed to the 30% most economically disadvantaged regions in the UK. This criterion is of particular importance, as the UK “displays large regional disparities in productivity compared to most other OECD countries.”²⁸ These geographical differences have been noted since at least the 1960s, but have been observed to be increasing on an ongoing basis, with London and the Southeast of England outperforming national averages,²⁹ leading to the conclusion that there “is no doubt that economic activity in Britain is very unevenly distributed.”³⁰ In this context, promoting economic growth and employment generation in the identified regions through the effects of SME lending will help alleviate the above-noted geographical inequality. Bearing in mind the forgoing, Sustainalytics views positively Lloyds’ programme to provide SME lending to economically disadvantaged regions.

The role of renewable energy in achieving climate goals

The UK is a signatory to the Paris Agreement, which seeks to reduce greenhouse gas emissions in order to limit global warming to well below 2°C and pursue efforts to achieve no more than 1.5°C warming, and ratified its commitment in November 2016.³¹ The European Union, on behalf of its members, including the UK, filed an Intended Nationally Determined Contribution committing the EU and its member states to a 40% reduction in emissions by 2030, based on a 1990 baseline.³² In recognition that the anticipated exit from the European Union will affect these commitments, the UK has begun the process of preparing a new Integrated National Energy and Climate Plan (NECP). The most recent draft of the NECP, published January 2019, references the binding long-term emissions target of an 80% reduction from 1990 levels by 2050 which was first enacted in the Climate Change Act 2008 as well as reaffirming the UK’s commitment to “maintaining a robust climate framework.” Furthermore, the NECP will explore the viability of setting a target date of net-zero carbon emissions, whether the 2050 target should be adjusted, and strategies and costs for reducing emissions.³³

In 2017, almost a quarter of the UK’s greenhouse gas emissions were related to energy supply.³⁴ In this context, decarbonizing the electricity sector will be necessary to achieving the government’s long-term climate goals. Sustainalytics is of the opinion that Lloyds’ financing of infrastructure projects related to solar, on-shore wind, off-shore wind, and tidal power will support a cleaner energy sector and provide significant environmental benefits.

The impact of energy efficient buildings

In 2017, direct greenhouse gas emissions from buildings in the UK were 85 MtCO₂e, making up 19% of overall emissions. Of this total, approximately three quarters of emissions were from residential dwellings, with commercial and public buildings making up 14% and 10% respectively. According to the Committee on Climate Change (CCC), temperature-adjusted sectoral emissions increased 1% year-over-year, and have

²⁶ House of Commons Treasury Committee, “SME Finance.” <https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/805/805.pdf>

²⁷ *ibid*

²⁸ OECD, “OECD Economic Surveys: United Kingdom 2017.” https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-united-kingdom-2017/reducing-regional-disparities-in-productivity_eco_surveys-gbr-2017-4-en

²⁹ Nguyen, D. “Regional Economic Disparities and Development in the UK.” <https://www.niesr.ac.uk/sites/default/files/publications/DP010.pdf>

³⁰ Overman, H. “Britain’s regional divide.” <http://cep.lse.ac.uk/pubs/download/cp277.pdf>

³¹ Department for Business, Energy & Industrial Strategy. “UK ratifies the Paris Agreement.” <https://www.gov.uk/government/news/uk-ratifies-the-paris-agreement>

³² Presidency of the Council of the European Union, “Intended Nationally Determined Contribution of the EU and its Member States.” <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/United%20Kingdom%20of%20Great%20Britain%20and%20Northern%20Ireland%20Firts/LV-03-06-EU%20INDC.pdf>

³³ Department for Business, Energy & Industrial Strategy. “The UK’s Draft Integrated National Energy and Climate Plan (NECP).” https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774235/national_energy_and_climate_plan.pdf

³⁴ Department for Business, Energy & Industrial Strategy. “2017 UK Greenhouse Gas Emissions.” https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/776083/2017_Final_emissions_statistics_one_page_summary.pdf

remained relatively flat since 2012 despite an economy-wide decrease in greenhouse gas emissions.³⁵ The CCC further recommended a number of key policy options that it anticipates will be needed for the sector to achieve overall carbon reductions, including high standards for new buildings, efficiency improvements for existing structures, and the deployment of low-carbon heating.³⁶

Sustainalytics considers that promoting buildings achieving at least BREEAM Outstanding, Excellent, or Very Good (provided a minimum score of 70% is achieved in the energy category), or EPC levels A and B, will support the achievement of these goals, and therefore views positively Lloyd's financing buildings that have obtained these certification levels. Furthermore, Sustainalytics notes that the focus on the Environmental Impact indicator for residential buildings places additional emphasis on the anticipated emissions, in addition to overall energy efficiency, which will encourage the adoption of low-carbon fuel sources for heating and/or cooling. Refer to Appendix 1 for further summary of the BREEAM and EPC schemes, which Sustainalytics consider to be reputable and indicative of high environmental performance.

Alignment with and contribution to the Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
SME Lending	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Healthcare Lending	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Energy efficient real estate assets	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Conclusion

Lloyds Banking Group has developed the Lloyds Sustainability Bond Framework, under which it intends to issue Sustainability Bonds, and use the proceeds to finance or refinance eligible loans for projects and activities related to SME lending, healthcare lending, green real estate & housing lending and renewable energy financing predominantly in the United Kingdom. Sustainalytics notes that SME and healthcare lending will be directed to the 30% most disadvantaged areas in the UK.

The use of proceeds categories specified in the Framework are aligned with those of the Sustainability Bond Guidelines 2018. Furthermore, Lloyds has described a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Sustainalytics believes that the investments funded by the Green Bonds will contribute to the advancement of the UN Sustainable Development Goals, in particular Goals 3, 7, 8, and 11.

Based on the above, Sustainalytics is confident that Lloyds is well-positioned to issue Sustainability Bonds, and that the Lloyds Sustainability Bond Framework is robust, transparent, and in alignment with the Green Bond Principles 2018, the Social Bond Principles 2018, and the Sustainability Bond Guidelines 2018.

³⁵ Committee on Climate Change. "2018 Progress Report to Parliament." <https://www.theccc.org.uk/wp-content/uploads/2018/06/CCC-2018-Progress-Report-to-Parliament.pdf>

³⁶ *ibid*

Appendices

Appendix 1: Comparison of Green Building Certifications and Labels

	EPC	BREEAM
Type of Scheme	Regulatory	Voluntary Certification
Background	In the UK, Energy Performance Certificates (EPCs) are required for most homes and commercial buildings at the time of construction, sale, or lease under a regulatory scheme that has been in place since 2007.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK, BREEAM can be used for new, refurbished and extension of existing buildings.
Certification levels	<ul style="list-style-type: none"> • G • F • E • D • C • B • A 	<ul style="list-style-type: none"> • Pass • Good • Very Good • Excellent • Outstanding
Areas of assessment	<p>Domestic buildings:</p> <ul style="list-style-type: none"> • Energy Efficiency • Environmental (CO₂) Impact <p>Non-domestic buildings:</p> <ul style="list-style-type: none"> • Energy Performance 	<ul style="list-style-type: none"> • Energy • Land Use and Ecology • Pollution • Transport • Materials • Water • Waste • Health and Wellbeing • Innovation
Requirements	<p>EPC scores are calculated based on a model which estimates energy consumption from the physical features of the building. The scores are not based on measured energy usage, but instead projected based on building components.</p> <p>For residential buildings, the EE rating indicates the fuel running cost, while the EI rating indicates carbon emissions.</p>	<p>Prerequisites depending on the levels of certification, and credits with associated points.</p> <p>This number of points is then weighted by item and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p>
Qualitative Considerations	Widely available data, focused exclusively on energy impact. CBI considers commercial and residential buildings rated A & B on the EI metric to be within the top 15% of the local building stock, and therefore be compliant with a Paris-compliant decarbonization trajectory.	Widely accepted within the industry. Sustainalytics considers BREEAM Very Good (provided a minimum score of 70% is achieved in the energy category), Excellent and Outstanding to be representative of best practice.
Performance display	<p>The energy efficiency rating is a measure of the overall efficiency of a home. The higher the rating the less energy is used to heat the home and the lower the heating bills.</p> <p>The environmental impact rating is a measure of a home's impact on the environment in terms of carbon dioxide (CO₂) emissions. The higher the rating the less impact it has on the environment.</p>	<p>Pass</p> <p>Outstanding</p>

Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Lloyds Banking Group
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Lloyds Banking Group Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	May 2, 2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

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.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles and/or Social Bond Principles. Sustainalytics considers the projects funded – SME lending, healthcare sector lending, green real estate, and renewable energy – to have positive environmental and social impacts and to advance the UN Sustainable Development Goals.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input 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 checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input 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):

Lloyds' Commercial Banking Client Asset Management (CAM) business is responsible for project selection, and will ensure that all projects funded are aligned with the criteria of the Framework. Sustainalytics considers this to be in line with market practice.

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 checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input 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*):

Lloyds will produce a monthly internal report to verify that proceeds have been allocated to eligible assets, which will receive sign-off from senior management. Pending allocation, funds may be held in liquid assets. Sustainalytics considers this to be in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

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 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):

Lloyds will produce annual allocation reports, a final allocation report once the proceeds are fully allocated, and annual compliance reports thereafter for the life of the bond. Quantitative impact metrics have been proposed for each category, and Lloyds will report against these metrics until the bond is fully allocated. Sustainalytics considers this reporting to be in line with market practice, and encourages transparent reporting of impact metrics.

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 type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input checked="" type="checkbox"/> Other ESG indicators (please specify): renewable energy installed, square footage of green properties, amount of SME loans |

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input checked="" type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (please specify): |
| <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.lloydsbankinggroup.com/investors/fixed-income-investors/unsecured-funding/>

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.

Disclaimer

© Sustainalytics 2019. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the “Opinion”) are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the “Green Bond Framework” in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided “as is” and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds’ use of proceeds.

The client is fully responsible for certifying and ensuring its commitments’ compliance, implementation and monitoring.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

