LLOYDS BANKING GROUP'S HOUSEBUILDING SUSTAINABILITY FINANCE FRAMEWORK 2022

DNV ELIGIBILITY ASSESSMENT

Scope and objectives

Lloyds Banking Group (hereafter referred to as the "Group") is a leading UK based financial services group that has been operating for more than 200 years, providing a wide range of banking and financial services to their 26 million retail and commercial clients.

Aside from its purpose of "Helping Britain Prosper", the Group has recognised sustainability as core to its strategy. As one of the largest funders to the UK housing sector, the Group recognises that access to secure, high quality, sustainable homes is fundamental to societal wellbeing, and that the propositions and services they offer, play a role in making this a reality[1]. The Group's commitment to this mission is further reflected in its purpose, to "Help Britain Prosper", by doing business responsibly.

The Group's efforts to have a social and green impact can be observed. For instance, on the social side, in 2021 to support the retrofit challenge in social housing, £3.4bn of funding, of which £2.4bn was sustainable (green or social use of proceeds) or sustainability-linked (including ESG key performance indicators), was provided.

On the environmental side, the Group considers the decarbonisation of homes, both new and existing, to be essential to meet the UK's Net Zero target by 2050[2], given that the built environment accounts for around 40% of CO2 emissions in the UK[3]. The need to decarbonise the housing sector has been accelerated given the introduction of the UK Government's "Future Homes Standard", that will come into effect in 2025. This will require homes to produce 75% to 80% *less* CO2 emissions compared to current building regulations[4].The Group's efforts to decarbonise the sector and resolve challenges in retrofitting have also been observed in 2020. Notably, the "Green Building Tool" was developed and launched, allowing clients from a single property through to large portfolios to analyse energy saving initiatives that offer the best return in terms of EPC ratings, carbon reduction, and financial savings.[5]

The Group has also demonstrated its wider effort in the social housing sector as an early adopter of the 'Sustainability Reporting Standards'. These provide housing associations with a framework to support the implementation and reporting of ESG performance in the social housing sector, in attempt to standardise and assist with ESG reporting across the sector and help unlock potential investment.

The Group's commitment to driving transparency and the sustainability ambitions of the housebuilder sector are further observed when, in 2021, Lloyds Bank joined the Executive Committee of the NextGeneration Initiative. The NextGeneration Initiative has been established for over 15 years and provides a sustainability benchmark ("NextGeneration Benchmark") for the largest 25 housebuilders[6],

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[1] For further information on actions taken by Lloyds Banking Group to support the housing sector of the UK, please refer to the Framework.

[2] Net Zero: The UK's contribution to stopping global warming – Committee on Climate Change [online].

[3] Climate Change - UK Green Building Council [online].

[4] The Future Homes Standard - Ministry of Housing, Communities and Local Government [online].

[5] Further work by the Group, that is noted by DNV, can be observed in 2021; Lloyds Banking Group is committed to supporting regional regeneration through its 3-year headline sponsorship of Regeneration Brainery, that looks to encourage school leavers from socially and economically deprived parts of the UK into Real Estate, Construction and Regeneration, in attempt to close the future skills gap.

[6] Typically, only the top 25 housebuilders (as determined by NextGeneration based on turnover and units built) would qualify for the full NextGeneration benchmark. However, for other sizeable housebuilders, they may request to participate in this standard, which will be reviewed by NextGeneration on a case-by-case basis.

which covers over 60 criteria across fifteen focus areas[7] that are weighted based on their overall sustainability impact.

As part of the Executive Committee, Lloyds Banking Group worked with JLL and its clients, to develop two other sustainability standards, as detailed below:

- **'NextGeneration Project'** for housebuilding projects to set a standard for 'Use of Proceeds (UoP)' within the new build housing sector; and
- **'NextGeneration Core'** that can be accessible to the smaller clients/housebuilders who cannot qualify for the full NextGeneration Benchmark, and to support the provision of 'Sustainability Linked-Loans' to its clients.

As a leading UK bank, the Group offers a wide range of sustainable finance propositions and tools that are constantly evolving to support the green transition of the housebuilder sector in the UK. The loan propositions which are relevant to the purpose of this assessment, are as follows:

i. **Clean Growth Financing Initiative ("CGFI")** – CGFI lending provides discounted financing for Small and Medium Sized Enterprises (SME) and Mid-Corporate housebuilders and developers, through discounted green financing subject to eligibility criteria which is informed by industry best practice.

ii. **Sustainable Development Loan ("SDL")** – SDLs are aimed at larger operators, and are subject to the SDL Eligibility Criteria for Use of Proceeds financing; and

iii. **Sustainability-Linked Loan ("SLL")** – SLLs provide discounted financing linked to a client's achievement of ambitious, predetermined sustainability performance targets. These typically involve a Margin Premium for the client if they fail to meet their targets.

Sustainability Finance Framework

As a next step in the Group's commitment to support the creation of national sustainability standards for sustainable finance in the housebuilder sector, the Group has developed the **"Lloyds Banking Group's Housebuilding Sustainability Finance Framework"** (hereafter referred to as the "Framework") to govern Green Loans (i.e., the Use of Proceeds Loan Propositions, namely CGFI and SDL) and Sustainability-Linked Loans (i.e., the Sustainability-Linked Loan Propositions).

The Framework aligns to the Loan Market Association (LMA") principles for Green Loans 2021 ("GLP") and Sustainability-Linked Loans 2022 ("SLLP"). The finance to be loaned under the Framework is intended to enable the following (further details are outlined in the "Findings and DNV's opinion" section):

- **Issuance of Use of Proceeds propositions** to finance Green Buildings projects falling under the Eligible Green Category, and that are linked to **one of the following** Eligibility Criteria, depending on the size of the housebuilding project:
    a) CGFI Eligibility Criteria; OR
    b) SDL Eligibility Criteria.
- **Issuance of Sustainability-Linked Loans** where the specific Sustainability Performance Targets (SPTs) will be linked to **the following,** depending on the client's market segment, or in the case of client's own KPIs, client preference:
    a) Client's own KPIs subject to Group's approval processes and alignment to the SLLPs; AND/OR
    b) 'NextGeneration Core'; OR
    c) 'NextGeneration Benchmark'.

[7] Details regarding 'NextGeneration Benchmark' and the underlying criteria are publicly disclosed online [online].

Through this Framework, the Group has also stated that it aims to deepen the relationships and collaborations between themselves and its housing clients to support the green transition of the sector by:

- Supporting its housebuilder and developer clients' financing requirements, from smaller developers to the larger housebuilders; and
- Enhancing understanding and implementation of best practice residential sustainability.

DNV Business Assurance Services UK Limited ("DNV") has been commissioned by Lloyds Banking Group to provide an eligibility assessment of the Framework. Our objective has been to provide an assessment on whether the Framework meets the criteria as established within the LMA principles. Our methodology to achieve this is described under 'Work Undertaken' below. DNV was not commissioned to provide independent assurance or other audit activities. No assurance is provided regarding the financial performance of loans issued under the Group's Framework, the value of any investments, or the long-term environmental benefits of the associated transactions. Our objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

Responsibilities of the Management of Lloyds Banking Group and DNV

The management of the Group has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform the Group's management and other interested stakeholders of the Framework, as to whether the established criteria have been met based on the information provided to us. In our work we have relied on the information and the facts presented to us by the Group. DNV is not responsible for any aspect of the nominated assets referred to in this opinion, and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by the Group's management and used as a basis for this assessment, were not correct or complete.

Basis of DNV's opinion

We have adapted our Eligibility Assessment Protocol which incorporates the requirements of the GLP and the SLLP to create a "**Lloyds Banking Group-specific Sustainable Financing Eligibility Assessment Protocol"** (henceforth referred to as "Protocol"). Our Protocol includes a set of suitable criteria that can be used to underpin DNV's opinion. As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the following Principles, split by type of issuance:

	Use of Proceeds for Loans	Sustainability-Linked Loans
Principle One:	**Use of Proceeds**. The Use of Proceeds criteria is guided by the requirement that a client of the funding instruments, as set out under the Framework, must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits	**Selection of Key Performance Indicators (KPIs).** The client of the Sustainability-Linked Loan should clearly communicate its overall sustainability objectives as set out in its sustainability strategy, its benchmarking approach, and how this relates to its proposed Sustainability Performance Target(s) (SPTs). The KPI should be relevant, core and material to the client's overall sustainability and business strategy;

	Use of Proceeds for Loans	Sustainability-Linked Loans
		measurable or quantifiable on a consistent methodological basis; externally verifiable; and can be benchmarked externally.
Principle Two:	**Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of funding instruments under the Framework should outline the process it follows when determining the eligibility of an investment using proceeds from Green, Social and Sustainability instruments, and outline any impact objectives it will consider.	**Calibration of Sustainability Performance Targets (SPTs).** The SPTs should be ambitious, meaningful, and realistic. The target setting should be done in good faith and based on a sustainability improvement in relation to a predetermined performance target benchmark.
Principle Three:	**Management of Proceeds**. The Management of Proceeds criteria is guided by the requirements that a funding instrument should be tracked within the issuing organisation, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.	**Financial Characteristics.** The loans will need to include a financial and/or structural impact depending on whether the selected KPIs reach (or not) the predefined SPTs. The loan documentation needs to require the definitions of the KPI(s) and SPT(s) and the potential variation of the SLL's financial and/or structural characteristics. Any fallback mechanisms in case the SPTs cannot be calculated or observed in a satisfactory manner, should be explained.
Principle Four:	**Reporting**. The Reporting criteria are guided by the recommendation that at least annual reporting to the investors of the instrument should be made of the use of proceeds, and that quantitative and/or qualitative performance indicators should be used, where feasible.	**Reporting**. Clients should publish and keep readily available and easily accessible up to date information on the performance of the selected KPI(s), as well as a verification assurance report outlining the performance against the SPT(s) and the related impact and timing of such impact on the loan's financial and/or structural characteristics, with such information to be provided to lenders at least once per annum.
Principle Five:	N/A	**Verification (Post-issuance).** The client should have its performance against its SPTs independently verified by a qualified external reviewer with relevant expertise, such as an auditor, environmental consultant and/or independent ratings agency, at least once a year. The verification of the performance against the SPT(s) should be made publicly available.

Work undertaken

Our work constituted a high-level review of the available information provided to DNV by the Group in good faith. DNV has not performed an audit or other tests to check the veracity of the information provided to us.

The work undertaken to form our opinion included:

- Creation of a Lloyds Banking Group-specific Protocol, adapted to the purpose of the Framework as described above, and in Schedules 1, 2, 3 and 4 of this Assessment.
- Assessment of the documentary evidence provided by the Group on the Framework, supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology.
- Discussions with the Group's management and an interview with JLL, as well as a review of the relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of the findings against each element of the criteria.

Our opinion as detailed below is a summary of these findings.

Findings and DNV's opinion

DNV's summary findings are listed below, split by type of instrument:

	Use of Proceeds Loans	Sustainability-Linked Loans
Principle One:	**Use of Proceeds:** Lloyds Banking Group intends to use this Framework as a means to issue **Green Loans and/or other debt instruments,** referred to as "**Use of Proceeds Loan Propositions**", to finance Eligible Green Projects and track the financing of these projects. The propositions that will be governed within the Use of Proceeds Loan Propositions are expected to be in the form of **Term Loans**. The Framework defines Eligible Green Projects as those that fall into the GLP category of "**Green Buildings**". For the Loan Propositions in this Eligible Green Project category, Lloyds Banking Group has specified suitable Eligibility Criteria **based on the size of the developments** to be fulfilled by the clients (e.g., national and internationally recognised building certifications). There are **two specific Use of Proceeds Loan Propositions** that the Framework refers to, the **CGFI** and **SDL Propositions**[8]:	**Selection of Key Performance Indicators (KPIs):** DNV notes that there are **three options for the KPI selection** for **Sustainability-Linked Loans (SLLs)** that will be offered by Lloyds Banking Group to its clients[9]: 1. **Businesses' own KPIs** as approved by the Group (for clients with an annual turnover of more than £25m); AND/OR 2. '**NextGeneration Core'** (for clients not in the 'Top 25' housebuilders list as determined by NextGeneration); OR 3. **'NextGeneration Benchmark'** (for the 'Top 25' housebuilders as determined by NextGeneration). **<u>Businesses own KPIs</u>:** For clients with sufficient capability to establish their own material KPI(s), DNV can confirm their selection will be subject to approval by the Lloyds Banking Group with respect to the nature of the project and/or business to be financed, and their

[8] Refer to Schedule 1 and Schedule 3 of this document and to the Framework for further detail.

[9] Refer to Schedule 2 and Schedule 4 of this document and to the Framework for further detail.

	Use of Proceeds Loans	Sustainability-Linked Loans
	• To apply for a **CGFI Loan**, the client / housebuilder should satisfy either: (i) the CGFI eligibility criteria, or (ii) the NextGeneration Project criteria (at a minimum bronze level) or (iii) other equivalent (or better standards), depending on client appetite • The **SDL Proposition** can only be availed by large corporates / housebuilders meeting the SDL eligibility criteria. The Eligibility Criteria will be used to make the environmental benefits from the Projects, quantifiable by the clients. DNV notes that the Framework describes in a detailed manner, the proposed utilisation of proceeds. The specificities of each issuance, especially with respect to CGFI (given that Lloyds Banking Group aims to encourage more SMEs towards a green transition), will need to be further assessed on an individual basis. DNV concludes that the Green Eligible Projects as described within the Framework, fall into the defined category of the GLP and will positively contribute towards the Group's strategic ambition of helping clients to build more sustainable and high-quality homes. The evidence reviewed gives us the opinion that future issuances to be issued under the Framework will deliver clear environmental benefits.	alignment with the SLLPs[10] – the selected KPI(s) must be: • Relevant, core and material to the client's sustainability strategy and business strategy. • Measurable or quantifiable on a consistent methodological basis; and • Externally verifiable and able to be benchmarked externally. For clients selecting their own KPI(s), the definition, scope, and calculation methodology for the KPI(s) will have to be assessed on a case-by-case basis by the Group as part of its Process for Loan Assessment and Approval. **'NextGeneration Core' and 'NextGeneration Benchmark':** It is in our opinion that the 'NextGeneration Core' and the 'NextGeneration Benchmark' are based on sustainability criteria that are material and core to the housebuilding industry, and the sector's wider approach to sustainability. DNV can conclude that the scores determined from 'NextGeneration Core' and 'NextGeneration Benchmark' are quantifiable on a consistent methodological basis. The criteria which form these assessments will be evaluated and updated on a three-year rolling period by NextGeneration to ensure it remains pertinent to sustainability issues of the housebuilding sector, whilst allowing housebuilders to benchmark their progress over time. We also note that NextGeneration is an entity external to, and independent from Lloyds Banking Group's clients. As such, this is seen to meet the requirement for the KPIs to be externally verifiable and benchmarkable, by leaning on an external reference. For loan propositions using either 'NextGeneration Core' or 'NextGeneration Benchmark', the scope and criteria have also been clearly referenced and defined, within the Framework and publicly available documentation. The Framework also clearly defines the KPI selection from these two options as either the NextGeneration Core score or the NextGeneration Benchmark score, resulting from the clients working with JLL as the secretariat to the NextGeneration Executive Committee to score themselves. Based on our findings we can conclude that Lloyds Banking Group is committed to following best

[10] For more explanation, see Schedule 2 of this document.

	Use of Proceeds Loans	Sustainability-Linked Loans
		practice, as per the SLLP, for the selection of KPIs, for any of the options chosen by the client.
Principle Two:	**Process for Project Evaluation and Selection:** We can confirm that the Framework has laid out a detailed process for Loan Assessment and Approval of a client. For the Loan Proposition to be approved, the Group states that it must undergo both its customary investment decision-making process, and meet the specific sustainable finance criteria for Housebuilders, which includes the following steps: **1. Proposition selection:** • An initial evaluation is carried out on the client. • This is informed by the client's market segment, and where appropriate for larger clients, by the Group's Sustainability and ESG Financing team; and • For each of the propositions, a comprehensive internal sales process will be followed. **2. Eligibility criteria:** • An assessment will be conducted on the alignment between the client's selected Eligible Projects and the Framework using the relevant Eligibility Criteria[11]. • Depending on the size of the Green Project there are two different Loan Propositions under the Use of Proceeds that the client can avail. For any Loan Proposition, the client must meet the relevant Loan Proposition Eligibility Criteria and align to the LMA GLPs. 3. **Approval process:** • The approval process will take place at different levels for the different Propositions. 4. **Identify financial mechanisms**: • This step will ensure that there are financial incentives in place, typically in the form of a discount, which reduces the cost of debt to the client, to ensure the delivery of environmental benefits.	**Calibration of Sustainability Performance Targets (SPTs):** **<u>Businesses own KPIs</u>**: For clients choosing the SLL option with their own approved KPIs, Lloyds Banking Group's Green Asset Eligibility Forum (GAEF) will review the SPTs against the criteria of the SLLPs, and ensure that best practice is followed by taking into account some, or all, of the following points: • How their SPTs go beyond the "Business as Usual" scenario, i.e., the SPTs should be ambitious, meaningful, and realistic. • If an objective and valid reference point for the SPTs has been used, e.g., using science-based scenarios by the Science-Based Target initiative (SBTi), alignment to the Paris Agreement, or some other official benchmark. • A clear roadmap as to how the business will achieve the SPTs, e.g., by describing its ESG strategy, supporting ESG governance and investments, and detailing its operating strategy through highlighting the key levers/actions that are expected to drive the performance towards the SPTs, as well as their expected impact, in quantitative terms wherever possible. • Timelines set to achieve the target(s), i.e., target observation date(s)/period(s), the trigger event(s) and the frequency of review of the SPTs. • Where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place. • Any other key factors beyond the client's direct control, that may affect the achievement of the SPTs. **<u>'NextGeneration Core' and 'NextGeneration Benchmark':</u>** We can confirm the 'NextGeneration Benchmark' has been established for over a decade through years of collaboration with the housebuilding industry (i.e., UK housebuilders representing a cross-section of the entire market) and sectoral expertise, provided by the NextGeneration Executive Committee members and its secretariat. We can also confirm based on the evidence

[11] Refer to Schedule 1 of this document and to the Framework for further detail.

	Use of Proceeds Loans	Sustainability-Linked Loans
	In order to decide on the Eligibility Criteria, and to establish the Project Evaluation and Selection Process as detailed in Step 2 above, Lloyds Banking Group has outlined three methods for the client to avail a CGFI Loan Proposition, and one method for the SDL Proposition[12]. The Group has also confirmed that its Green Asset Eligibility Forum (GAEF) will convene meetings weekly to review and consider client transactions that have been escalated from either a dedicated CGFI mailbox or the Group's Real Estate & Housing Green Working Party (RE&H GWP). To ensure the Eligibility Criteria remains up to date, the Group will review the latest industry best practice or external regulation, such as the UK Government Industrial Decarbonisation Strategy and the UK Government Clean Growth Strategy, the EU Taxonomy for Sustainable Activities, etc. The Group has confirmed in the Framework that for either CGFI Propositions or SDL Propositions, if a Green Project is found to not meet the Eligibility Criteria at any point, then, the related loan will be declassified and treated as a conventional loan. Any beneficial financial features associated with that loan will also be disapplied. Based on the evidence reviewed, DNV concludes that there is an appropriate decision-making process behind the approval of any Eligible Green Projects and subsequent Loan Propositions. DNV further concludes that the activities to be financed by future issuances will be appropriately evaluated and selected in accordance with the Framework, and that this satisfies the requirements of the GLP.	reviewed, that 'NextGeneration Core' has been derived from the 'NextGeneration Benchmark'. Lloyds Banking Group has also confirmed that for SLLs based on 'NextGeneration Core' and 'NextGeneration Benchmark' options, the client will work with JLL as the secretariat of the NextGeneration Executive Committee to score itself against the relevant benchmark. The client will then work with the Group to achieve an ambitious, meaningful, and realistic improvement on that benchmark score over the life of the facility. As the SPT will be calibrated against the benchmark score as determined for the client, DNV concludes that the SPT will, by definition, be meaningful to the housebuilder's business and an industry-aligned sustainability strategy. DNV further concludes that, as the SPTs will be set against an externally developed benchmark, the SPTs will inherently be based on a combination of benchmarking approaches, which: • Allow the client's own performance to be tracked over time. • Provide the SPTs' relative positioning versus the client's peers, who have been assessed as part of the NextGeneration benchmarks; and • Refer to sustainability best-practices for the housebuilding industry, as developed by NextGeneration. DNV notes that for these two SLL options the responsibility to verify the baseline, review the assessment criteria, and make any adjustments, will reside with NextGeneration. Lloyds Banking Group has further confirmed that it will determine an ambitious, meaningful, and realistic improvement of the benchmark score as the client's SPT. The SPT will be time-bound in accordance with the life of the facility. DNV notes that the scale of the improvement on the benchmark score will be considered on a case-by-case basis and will need to be approved by the Group's GAEF, to ensure alignment with the SLLP. The timelines of target achievement, the trigger event(s), and the frequency of review of the SPTs, will be included as part of the loan documentation. DNV concludes that the Framework is aligned with the SLLPs, and that Lloyds Banking Group is committed to ensuring:

[12] Refer to Schedule 1 of this document and to the Framework for further explanation.

	Use of Proceeds Loans	Sustainability-Linked Loans
		• The SPTs agreed under the different SLL options are ambitious, realistic, and meaningful to the client's business and overall strategic sustainability/ESG strategy. • The agreed SPTs go beyond a "Business as Usual" trajectory. • The agreed SPTs are based on a combination of benchmarking approaches, as per the SLLP. • Clients' targets are clearly defined, are time-bound, refer to a valid reference point or benchmark, and set out the conditions for review and/or recalculation, in line with the SLLP. Exact targets for a specific transaction would need to be included in the relevant SLL documentation.
Principle Three:	**Management of Proceeds:** The Group has confirmed that the net proceeds will be managed in accordance with the Group's Eligibility Criteria for Loan Propositions, as agreed by the GAEF. For each client to which this Framework applies, they will be required to hold the proceeds of the underlying loan in either a sub-account, or to otherwise track the funds in their own internal system. In line with the Group's internal monitoring processes for the Loan Propositions reported in the Framework, Lloyds Banking Group will ensure that their Relationship Managers work with the clients to manage the Loan Proceeds. **<u>SMEs and Mid-Corporates</u>**: For SMEs and Mid-Corporate housebuilders and developers qualifying for the CGFI Loan Propositions, Relationship Managers will: • Ensure Lloyds Banking Group has received, in form and substance acceptable to it, a full appraisal of the Eligible Green Project including a detailed cashflow of the projected Project costs. The appraisal is to be prepared by a party acceptable to the Group and must show no issues of concern. • Work with the clients to release the proceeds in amounts of *no less than £25,000*, provided that in respect of each drawing, the Group shall have first received confirmation of all expenditures related to a Project and has had written instruction from the client that specifies the amount to which the proceeds of the drawing are to be credited. The total of all drawings made shall not at any time	**Financial Characteristics:** The Group has confirmed that under the relevant loan agreement, the applicable interest rate will be *reduced* if the client meets the pre-determined SPTs, as measured by the approved KPIs. The Group has further confirmed if a client fails to satisfy *one or more* of the selected SPTs, then this will trigger an *increase* in the applicable interest rate. DNV notes that the exact financial structure (i.e., a percentage decrease/increase of interest rates) for each loan, will need to be established by the Group. The Group has also reported in its Framework that a loan document will be issued, setting out the details of any Margin Premium payable in the event of a missed target, by the client. **<u>Businesses own KPIs</u>**: For clients' own approved KPIs, the Group has confirmed that the Group's GAEF will review the SPTs against the SLLP during target setting and ensure that best practice is followed. For instance, the Group's GAEF will consider, where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place, as well as other key factors beyond the client's direct control that may affect the achievement of the SPTs. On that basis, DNV concludes that there appears to be little risk of the Group's clients not being able to calculate their SPT performance against the KPIs approved by the Group's GAEF. **<u>'NextGeneration Core' or 'NextGeneration Benchmark'</u>:** DNV confirms that there appears to be little risk of its clients not being able to obtain a score against 'NextGeneration Core' or 'NextGeneration

	Use of Proceeds Loans	Sustainability-Linked Loans
	(unless the Group otherwise agrees) exceed the total expenditure detailed in the confirmations received. **<u>Larger operators</u>:** For larger operators meeting the SDL eligibility criteria, clients are required to: • Ensure that the condition precedents are satisfied *prior* to the availability of a facility, and the eligibility of a Green Project has been demonstrated. • Instruct a Monitoring Surveyor to: - Confirm that the funds are being drawn for expenditures towards the Eligible Green Project; and - Make representations relating to ongoing compliance with Green Provisions, as defined by the SDL eligibility criteria. DNV concludes there is a clear and adequate process in place for the issuance of future "Use of Proceeds Loan Propositions", and that these will be managed in accordance with the requirements set out by the GLP.	Benchmark'. DNV also notes that the criteria which form the two assessments will be evaluated and updated on a three-year rolling period. Should there be any major changes to the assessments *after the issuance* of a loan, the Group has confirmed its clients will have the following options: (i) Proceeding with the original baseline methodology, or (ii) Re-baselining to the new methodology, as required. The exact approach will need to be agreed on a case-by-case basis in discussions with the clients. DNV can confirm that the Group's commitment to defining the financial characteristics of the SLLs to be issued to its clients is in line with the requirements of the SLLPs.
Principle Four:	**Reporting:** The Group confirms that the reporting will take place at two levels: (1) at the client level (Client Reporting) and (2) at the Group level (Impact Reporting). **<u>Client Reporting</u>**: DNV notes that under Client Reporting for CGFI loans, the Group would require clients to provide indicative EPC certificates, including SAP scores and the architect's calculations, prior to loan approval. Upon project completion, the Group will require as a minimum that clients provide final EPC certificates for each unit built and funded by a CGFI loan, irrespective of the Eligibility Criteria chosen. For clients opting for NextGeneration Project or other equivalent or better accreditation, the Group would also require copies of the award certification. For clients falling under SDL Propositions, the reporting requirements are for clients to provide accurate and up to date information demonstrating the green credentials of the Eligible Green Project prior to the advance of the loan, throughout the duration of the loan, and at completion.	**Reporting:** The Group has confirmed that its clients will primarily be responsible for reporting on the KPIs agreed for the SLLs as issued under the Framework. As part of the Group's Loan Compliance Reporting, Client Reports are required to include specific information. Reporting requirements will vary slightly depending on the SLL option chosen by the client, as detailed below: **<u>Clients using their own KPIs:</u>** • Demonstration of compliance with the KPI(s), along with an External Reviewer's assessment of the loans and related procedures, detailing: ○ The selected KPI(s), including the baseline where relevant; ○ The performance against the SPT(s) and the related impact, and the timing of such impact on a financial instrument's performance. ○ Any relevant information enabling the Group to monitor the progress of the KPI. • On a best endeavour basis, the client should also publicly report on the information relating to their SPTs for transparency, as

	Use of Proceeds Loans	Sustainability-Linked Loans
	Additionally, the Group will require the following from the client prior to each loan advance: • the assets to which loan proceeds are allocated; • the amounts allocated; • the nature of the Eligible Green Project. The Group will further require the client to certify annually that they continue to maintain the relevant green certification. Evidence of the expected green impact of the projects may also be collated as evidence by the Group. It is understood that the responsibility for ensuring that the information delivered to the Group is accurate and up to date, will reside with the client. **Impact Reporting**: As part of its Impact Reporting, where feasible, the Group will report granular metrics relevant to the projects funded by the Loan Proposition, included within its annual ESG reporting. Examples of potential KPIs or indicative impact metrics include (not an exhaustive list): • Number of new homes the Group has financed that meet the Group's green lending criteria; • Weighted average SAP score per unit for the Group's green lending book (where SAP score was the lead eligibility criteria); • If SAP score is not the lead eligibility criteria, then the Group will look at the number and proportion (%) of new developments with the relevant level of BREEAM certification or equivalent, including the relevant Home Quality Mark. • Relevant case studies DNV concludes the Group has committed to producing appropriate and transparent reporting on the use of proceeds and environmental impacts of future issuances made under the Framework, and that this meets the requirements of the GLP.	part of its integrated annual report / sustainability report. **Clients using one of NextGeneration assessments:** • Detail on the selected SPT(s) (the improvement on the client's Benchmark score) along with NextGeneration's assessment of their baseline. • The client's performance against the SPT(s) and the related impact and timing of such impact, on a financial instrument's performance. • Any relevant information enabling the Group to monitor the progress of the KPI. In **both SLL options** the reporting may include, when feasible: • Illustration of the positive sustainability impacts of the performance improvement (qualitative or quantitative); and /or • Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant. DNV concludes that the clients' reporting requirements as set out by Lloyds Banking Group's Framework, are in line with the SLLP.
Principle Five:	N/A	**Verification (Post-issuance):** Lloyds Banking Group has confirmed its clients must obtain independent, external verification of their performance against the SPT(s) for each KPI at least once a year. This may be in the form of a sustainability compliance certificate provided to the Group by the housebuilder, together with third party verification by a qualified external reviewer

	Use of Proceeds Loans	Sustainability-Linked Loans
		with the relevant expertise (e.g., an auditor, environmental consultant and/or independent ratings agency). The Group further recommends that clients make the report publicly available, where appropriate. Upon the completion of reporting and external verification, the Group will evaluate the clients' KPI(s) against the pre-determined SPT(s) to determine which SPT trigger event to apply. DNV can confirm that the Group's requirements for external verification and reporting of its clients' SPT performance, are in line with the criteria under the SLLP.

On the basis of the information provided by Lloyds Banking Group and the work undertaken, it is DNV's opinion that the "Lloyds Banking Group's Housebuilding Sustainability Finance Framework" meets the criteria established in the Protocol, and that it is aligned with the stated definitions of Green Loans within the Green Loan Principles (GLP) 2021 and Sustainability-Linked Loans within the Sustainability-Linked Loan Principles (SLLP) 2022.

for DNV Business Assurance Services UK Limited

London, 12 July 2022

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About DNV

Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight. With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 12,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

SCHEDULE 1: DESCRIPTION OF ACTIVITIES TO BE FINANCED UNDER THE USE OF PROCEEDS LOANS

LMA Green Project category	Description of activities (non-exhaustive list)
Green buildings	Development costs, referring to the Capex associated with delivering new and affordable private homes against the below mentioned "Use of Proceeds Loan Propositions", that meet one or more national or internationally recognised standards or certifications, and align with the GLPs. **Clean Growth Financing Initiative (CGFI):** For entry level financing (SMEs) and mid-market sized business (Mid-Corporate housebuilders and developers), clients must meet the following Eligibility Criteria: 1. Project meets the CGFI Eligibility Criteria of an absolute floor of EPC B for each individual unit, and a project weighted average of "EPC B+" (i.e., higher end SAP scores within the B rating); OR 2. Project meets the NextGeneration Project criteria at a minimum Bronze level (referenced in Appendix [a] of the Framework. This will be independently verified by JLL as the secretariat to NextGeneration; OR 3. Project meets other equivalent standards (or better). This includes HQM or BREEAM, for instance. **Sustainable Development Loan (SDL):** For larger operators (Corporate & Institutional Banking), clients must meet the SDL eligibility criteria which includes meeting regional, national or internationally recognised Green Building standards or certifications, such as: ✓ Minimum EPC B for each individual unit and a project weighted average of "EPC B+" or equivalent. ✓ An appropriate BREEAM rating (e.g., Very Good, Excellent or Outstanding; including acceptable energy and emissions related BREEAM credits). ✓ An appropriate HQM rating (e.g., 4* or 5*). ✓ NextGeneration Project accreditation (referenced in Appendix [a] of the Framework) at a minimum level of Bronze. ✓ Other building certifications or equivalent approaches to a performance level in line with market observed standards. DNV notes that the Group may, **by exception**, allow for marginal flexibility on the above eligibility criteria for both CGFI and SDL propositions. For instance, the Group may accept a lower standard on a single deal, provided that there are other compelling positive sustainability characteristics and that a minimum requirement of EPC B for each individual unit is maintained. By the same notion, the Group may decide to exclude a deal that has a material negative factor, even if it meets the above eligibility criteria. DNV further notes that the CGFI and SDL eligibility criteria may be reviewed in future to remain in line with evolving requirements. The criteria outlined above represent the current position at the time of the Framework being published.

SCHEDULE 2: DESCRIPTION OF THE KEY PERFORMANCE INDICATORS (KPIs) AND SUSTAINABILITY PERFORMANCE TARGETS (SPTs) FOR SUSTAINABILITY-LINKED LOANS

DNV notes there are **three options** for the **KPI selection** for **Sustainability-Linked Loans**, which are being offered by the Group to its clients:

1. **'Clients' own KPIs'** as approved by Lloyds Banking Group (for clients with an annual turnover of more than £25m); AND/OR
2. **'NextGeneration Core'** (for clients not in the 'Top 25' housebuilders list as determined by NextGeneration) (as referenced in Appendix [b] of the Framework); OR
3. **'NextGeneration Benchmark'** (for the 'Top 25' housebuilders as determined by NextGeneration)[13].

For the 'NextGeneration Core' and 'NextGeneration Benchmark' options, clients will work with JLL to receive a benchmark score against the full 'NextGeneration Core' criteria set and the full 'NextGeneration Benchmark' criteria set, respectively. The Group will then determine an ambitious, meaningful, realistic, and time-bound improvement of that benchmark score, as the client's SPT. Further details on the calibration of the SPTs can be found in Schedule 4 of this document.

For clients with the capability to choose their own KPIs, the considerations for KPI selection and calibration of the SPTs have been outlined in Table 1 below:

Table 1: Criteria for KPI selection and calibration of SPTs for clients' own KPIs as approved by Lloyds Banking Group

Key performance indicators (KPIs)	Sustainability performance targets (SPTs)	Alignment with relevant benchmarks
Clients' own KPIs as approved by Lloyds Banking Group	The Group expects its clients to agree to KPI(s) in line with the SLLPs. They must be: • Relevant, core, and material to the sustainability and business strategy. • Measurable or quantifiable on a consistent methodological basis; and • Externally verifiable, and able to be benchmarked externally.	**Clients' own KPIs** may be aligned to the following official recommendations or benchmarks, for example: • Science-Based Target Initiative (SBTi). • UNFCCC Paris Agreement. • EU Taxonomy. Alignment with the UN SDGs will have to be determined on a case-by-case basis.

[13] Details regarding 'NextGeneration Benchmark' and the underlying criteria are publicly disclosed online [online].

Key performance indicators (KPIs)	Sustainability performance targets (SPTs)	Alignment with relevant benchmarks
	Based on the agreed KPI(s), clients will set SPTs which will be reviewed by the Group's Green Asset Eligibility Forum (GAEF) against the SLLPs to ensure best practice is followed. This will include taking into account some, or all, of the following points: • How their SPTs go beyond the "Business As Usual" scenario, i.e., the SPTs should be ambitious, meaningful and realistic. • Objective and valid reference point for the SPT(s), e.g., using science-based scenarios such as the SBTi, alignment to the Paris Agreement, or some other official pathway. • A clear roadmap as to how the client will achieve the SPTs, e.g., by describing its ESG strategy, supporting ESG governance and investments, and its operating strategy, i.e., highlighting the key levers/actions expected to drive the performance towards the SPTs, as well as their expected impact, in quantitative terms wherever possible. • Timelines for the target achievement, i.e., target observation date(s)/period(s), the trigger event(s), and the frequency of review of the SPTs. • Where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place. • Any other key factors beyond the client's direct control that may affect the achievement of the SPTs.	

SCHEDULE 3: USE OF PROCEEDS FINANCIAL INSTRUMENTS – LLOYDS BANKING GROUP - SPECIFIC SUSTAINABILITY FINANCING FRAMEWORK ELIGIBILITY ASSESSMENT PROTOCOL

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Types of Financing Framework	Green Loans are defined as any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible projects. Green Loans must align with the four components of the GLP.	In addition to reviewing the evidence below, we had several detailed discussions with the Group. Evidence reviewed: • Annual Report and Accounts 2020 "Helping Britain Recover". • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction 10/2021.	The Framework is intended to track the Group's financing of green assets and be used as a guide in the development of Green Propositions and Services which reference a specific Use of Proceeds. The Framework outlines the type of debt instruments, i.e., "Use of Proceeds Loan Propositions" to be issued to its clients for both small and large developments, that the Framework aims to govern. The two propositions are – (i) the Use of Proceeds Loan Propositions (CGFI and SDL- see Schedule 1), and (ii) Sustainability Linked Finance (see Schedule 2 and Schedule 4), including but not limited to Term Loans and Revolving Credit Facilities (RCFs) as appropriate. DNV is of the opinion that the specific type of Use of Proceeds Instruments will need to be further assessed by the Group on a case-by-case basis.
1b	Green Project Categories	The cornerstone of a Sustainability loan is the utilisation of the proceeds which should be appropriately described in the legal documentation for the security.	Evidence reviewed: • CGFI – Eligibility Criteria and Sales Processes 11/2021. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction 10/2021. • 2022.06.30 DNV requested documents (CGFI & SDL Eligibility Criteria). • NextGeneration Project Criteria – [online].	The Group intends for the proceeds from its future Green Loan issuances to finance activities that fall under the Eligible Green Category of "Green buildings". DNV confirms that the nature of the Loan Propositions that enable these issuances, clearly fall within the definition of Eligible Category as outlined in the Framework and in Schedule 1 of this opinion. The utilisation of proceeds is also described in a detailed manner and is consistent with the GLP guidelines. The specificities of each issuance, especially with respect to CGFI (given that Lloyds Banking Group aims to encourage more SMEs towards a green transition) will need to be further assessed on an individual basis.
1c	Green benefits	All designated sustainability project categories should provide clear	Evidence reviewed:	The Group has provided a description of the types and scale of the developments that fall under Eligible Green Projects intended

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		environmental benefits by the client, which, where feasible, will be quantified or assessed by the issuer.	• CGFI – Eligibility Criteria and Sales Processes 11/2021. • CGFI Side Letter sample. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction 10/2021. • 2022.06.30 DNV requested documents (CGFI & SDL Eligibility Criteria). • NextGeneration Project Criteria – [online].	to be financed under the Framework. To make the benefits quantifiable, the Group has provided a detailed list of Eligibility Criteria, based on which Green Financing Instruments that will be granted to its clients. For instance, when establishing eligibility against the CGFI criteria, Lloyds Banking Group demands clients adhere to the terms in a Side Letter, that requires them to confirm prior to the first Loan/Facility drawdown the funding purpose, the expected environmental benefits and acknowledgement of the environmental conditions that may apply. DNV confirms that the Group has clearly outlined how it intends to support the performance and assessment of the eligible projects. The evidence reviewed gives us the opinion that future issuances to be issued under the Framework will deliver clear environmental benefits.

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	The issuer of a Green Loan should outline the decision-making process it follows to determine the eligibility of projects using the proceeds	In addition to reviewing the evidence below, we had several detailed discussions with the Group. Evidence reviewed: • CGFI – Eligibility Criteria and Sales Processes 11/2021. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction 10/2021.	DNV can confirm that the Group has specified in detail the Eligibility Criteria for a Loan Proposition that a client qualifies under and has a detailed process in place for the Loan assessment and approval process. For the Loan Proposition to be approved it must undergo the Group's customary investment decision-making process, and meet specific sustainable finance criteria for clients as follows: 1. *Proposition selection* - an initial evaluation is carried out on the client and the most relevant proposition is determined. This is informed by their market segment, and where appropriate for larger clients, by the Group's Sustainability and ESG Financing team. For each Proposition a comprehensive internal sales process will be followed. 2. *Eligibility criteria* - an assessment will be conducted on the alignment between the client's selected eligible projects and the Framework using the relevant Eligibility Criteria, which will depend on *Proposition selection* and will be identified in step 1. 3. *Approval process* - different levels of internal approval will be adhered to for different Propositions. 4. *Identify Financial Mechanisms* - financial benefits to incentivise the delivery of environmental performance will be determined, generally in the form of a discount, which reduces the cost of debt to the client. To decide on the Eligibility Criteria, and to establish Project Evaluation and Selection (in Step 2 above), the Group outlines three methods for the client to avail a CGFI Loan Proposition, and one method for the SDL Loan Proposition. Both propositions are dependent on the size of the development (see Schedule 1). For clients demonstrating eligibility against the NextGeneration Project criteria, the accreditation assessment will be verified by JLL as the secretariat to NextGeneration. DNV further notes that the Group's Green Asset Eligibility Forum (GAEF) - that comprises of senior staff across Client Product, Risk, Coverage and Sustainability & Responsible Business - will

				set the Group's Eligibility Criteria for Use of Proceeds Loan Propositions and will convene meetings weekly to review and consider client transactions that have been escalated from either a dedicated CGFI mailbox, or the Group's Real Estate & Housing Green Working Party (RE&H GWP). The Eligibility Criteria themselves are influenced by external bodies such as: i. The GLP; ii. UK Government Industrial Decarbonisation Strategy; iii. UK Government Clean Growth Strategy; iv. The Sixth Carbon Budget (Committee on Climate Change, UK Government); v. EU Taxonomy for Sustainable Activities; and vi. Any other relevant resources which are published over time. The escalations as described above will also include the consideration of loan propositions to be reviewed on an exceptional basis, as outlined in Schedule 1. These propositions will have to obtain approval from either the RE&H GWP or GAEF. The Group has also confirmed that if a Green Project is found to *not* meet the Eligibility Criteria at any point, then the related loan will be declassified and will be treated as a conventional loan. Any beneficial financial features associated with that loan will also be disapplied, as follows: • For CGFI deals, the Relationship Manager would need to highlight this through to Client Propositions to have this loan declassified. • For SDLs, declassification would take place if the annual reporting demonstrated that the project no longer qualified. Based on the evidence reviewed, DNV concludes there is an appropriate decision-making process behind the approval of any Eligible Green Projects and subsequent Loan Propositions. In addition, we can also confirm that the activities to be financed by all future issuances will be appropriately evaluated and selected in accordance with the Framework, and that this satisfies the requirements under the GLP.

2b	Issuer's environmental, social and governance framework	In addition to the information disclosed by an issuer on its Loan process, criteria and assurances, Loan investors may also take into consideration the quality of the issuer's overall framework and performance regarding sustainability.	Evidence reviewed: • CGFI – Eligibility Criteria and Sales Processes 11/2021. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction 10/2021.	DNV has reviewed evidence provided, and we can confirm that it shows there is an adequate governance process in place to assess any Green Financing Instrument. If the loan is deemed eligible, it will undergo the Group's investment decision-making process (the four-step process) as detailed in 2a of Schedule 3. This ensures that all loans are meaningful, impactful, and consistent with the Framework's terms. As detailed in 2a of Schedule 3, DNV also notes the Group's commitment to ensure the Eligibility Criteria remains up to date and aligned with industry best practice / external regulation or standards. DNV concludes that the activities to be financed by future issuances will be appropriately evaluated and selected, and that the process for selection will be transparent and well-documented and must meet the requirements as set under the GLP.

3. Management of proceeds

<table>
<tr><th>Ref.</th><th>Criteria</th><th>Requirements</th><th>Work Undertaken</th><th>DNV Findings</th></tr>
<tr><td>3a</td><td>Tracking procedure</td><td>The net proceeds of a Loan should be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the issuer in an appropriate manner, and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Sustainability Projects.</td><td>In addition to reviewing the evidence below, we had several detailed discussions with the Group.

Evidence reviewed:
• CGFI – Eligibility Criteria and Sales Processes 11/2021.
• Lloyds Banking Group's Housebuilding Sustainability Finance Framework.
• New Build Housing – Lloyds Product Interaction 10/2021.</td><td>The Group has confirmed that the net proceeds will be managed in accordance with the Group's eligibility criteria as agreed by the GAEF. In line with the Group's internal monitoring processes for the Loan Propositions made available under the Framework, the Group will ensure that their Relationship Managers work with the clients to manage the Loan Proceeds.

For SMEs and Mid-Corporates qualifying for the CGFI Loan Propositions, Relationship Managers will:
• Ensure that the Group has received, in form and substance acceptable to it, a full appraisal of the Eligible Green Project, including a detailed cashflow of the projected Project costs. The appraisal is to be prepared by a party acceptable to the Group, and to show no issues of concern to them.
• Work with their clients to release the proceeds in amounts of not less than £25,000, provided that in respect of each drawing the Group shall have first received confirmations (each in a form and from a party acceptable) of all expenditure on the Project and written instruction from the client specifying the amount to which proceeds of the drawing are to be credited. The total of all drawings made shall not at any time (unless Lloyds otherwise agrees) exceed the total expenditure detailed in the confirmations received.

For larger operators meeting the SDL eligibility criteria, clients are required to:
• Ensure the condition precedents are satisfied prior to the availability of a facility, including that the client demonstrates the loan proceeds will be allocated to an Eligible Green Project.
• Instruct a Monitoring Surveyor to:
  o Confirm that the funds are being drawn for expenditures towards the Eligible Green Project; and
  o Make representations relating to ongoing compliance with Green Provisions, as defined by the SDL eligibility criteria.</td></tr>
</table>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				DNV notes that each client to which this Framework applies to will be required to hold the proceeds of the underlying loan in a sub-account, or to otherwise track the funds in its internal systems. DNV finds that the Group has made the appropriate plans to track the use of proceeds and that this is attested to by a formal internal process.
3b	Tracking procedure	So long as the Loans are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green or social investments or loan disbursements made during that period.	Evidence reviewed: • CGFI – Eligibility Criteria and Sales Processes 11/2021. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction 10/2021.	Based on the drawdown process managed by the Group's Relationship Managers, and/or clients' Monitoring Surveyors as described in Section 3a of Schedule 3, DNV concludes that the Group has a clear process in place for tracking the balance of the proceeds, taking into account any disbursements.
3c	Temporary holdings	Pending such investments or disbursements to eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	Evidence reviewed: • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction 10/2021.	The Group has confirmed there are the necessary mechanisms (as mentioned in sections 3a and 3b) in place for each loan drawing, regarding both the CGFI and SDL. For CGFI, the Group shall have first received confirmations of all expenditure on the Project and written instruction from the client, specifying the amount to which proceeds of the drawing are to be credited. The total of all drawings made shall not at any time (unless the Group otherwise agrees) exceed the total expenditure detailed in the confirmations received by the Group. For SDLs, there are similar condition precedents. DNV concludes that the Group has appropriately disclosed how it will manage any unallocated proceeds in alignment with LMA's GLP.

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Loan proceeds have been allocated including - when possible, with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed as well as the expected environmentally sustainable impact.	In addition to reviewing the evidence below, we had several detailed discussions with the Group. Evidence reviewed: • CGFI – Eligibility Criteria and Sales Processes 11/2021. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction 10/2021.	The Group confirms that the reporting will take place at two levels – at the client level (Client Reporting) and at the Group level (Impact Reporting). DNV notes that under Client Reporting for CGFI loans, the Group would require clients to provide indicative EPC certificates, including SAP scores and the architect's calculations, prior to loan approval. Upon project completion, the Group will require as a minimum that clients provide final EPC certificates for each unit built and funded by a CGFI loan, irrespective of the Eligibility Criteria chosen. For clients opting for NextGeneration Project or other equivalent or better accreditation, the Group would also require copies of the award certification. For clients falling under SDL Propositions, the reporting requirements are for clients to provide accurate and up to date information demonstrating the green credentials of the Eligible Green Project, both prior to the advance of the loan and throughout the duration of the loan. Additionally, the Group will require the following from the client prior to each loan advance: • the assets to which loan proceeds are allocated; • the amounts allocated; • the nature of the Eligible Green Project. The Group will further require the client to certify annually, that they continue to maintain the relevant green certification. Evidence of the expected green impact of the projects may also be collated as evidence by the Group. It is understood that the responsibility for ensuring that the information delivered to the Group is accurate and up to date, will reside with the client. As part of its Impact Reporting, where feasible, the Group will report on the granular metrics relevant to the projects as funded by the Loan Proposition(s), which will be included within its annual ESG reporting. Examples of potential KPIs or indicative impact metrics include (not an exhaustive list):

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				• Number of new homes the Group has financed that meet the Group's green lending criteria; • Weighted average SAP score per unit for the Group's green lending book (where SAP score was the lead eligibility criteria); • If SAP score is not the lead eligibility criteria, then the Group will look at the number and proportion (%) of new developments with the relevant level of BREEAM certification or equivalent, including the relevant Home Quality Mark. • Relevant case studies DNV concludes that the Group has committed to producing appropriate and transparent reporting on the use of proceeds and on the environmental impacts of future issuances made under the Framework. We can also confirm that this meets the requirements of the GLP.

SCHEDULE 4: SUSTAINABILITY-LINKED LOAN – LLOYDS BANKING GROUP-SPECIFIC SUSTAINABILITY FINANCING FRAMEWORK ELIGIBILITY ASSESSMENT PROTOCOL

1. Selection of Key Performance Indicators (KPIs)

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	KPI – Material to core sustainability and business strategy	The clients' sustainability performance is measured using sustainability KPIs that can be external and/or internal. The KPIs should be material to the clients' core sustainability and business strategy and should address relevant environmental, social and/or governance challenges of the industry sector, and be under management's control. The KPIs should be of high strategic significance to the clients' current and/or future operations. It is recommended that the clients communicate clearly to lenders the rationale and process according to which the KPIs have been selected and how the KPIs fit into their sustainability strategy.	In addition to reviewing the evidence below, we had several detailed discussions with the Group and an interview with JLL. Evidence reviewed: • 2020 NextGeneration Sustainability Benchmark Report [online]. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction – October 2021. • NextGeneration Benchmark Criteria – 2022-2024 [online]. • NextGeneration Core Criteria – [online].	DNV notes that there are three options for KPI selection when it comes to Sustainability-Linked Loans, that are being offered by the Group: 1. Businesses own KPIs as approved by the Group (for clients with an annual turnover of more than £25m). 2. 'NextGeneration Core' (for clients not in the 'Top 25' housebuilders list as determined by NextGeneration); OR 3. 'NextGeneration Benchmark' (for the 'Top 25' housebuilders as determined by NextGeneration); AND/OR **<u>Clients using their own KPIs:</u>** For clients with sufficient capability to establish their own material KPIs, the selected KPIs will be subject to approval by the Group in function of the nature of the project and/or business to be financed, and their alignment with the SLLP. In particular, the Group will expect its clients to select KPIs that are: • Relevant, core, and material to the client's sustainability strategy and business strategy. • Measurable or quantifiable on a consistent methodological basis; and are • Externally verifiable and able to be benchmarked externally. **<u>Clients using one of the NextGeneration standards:</u>** The 'NextGeneration Benchmark' covers 15 focus sustainability criteria, namely: company strategy and governance, reporting, future proofing, environmental site management, minimum sustainability standards, ecology and urban drainage, energy and carbon, water, waste, transport, procurement, health and safety, community and

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				client engagement, design and placemaking, and socio-economic development. The NextGeneration Executive Committee consists of Homes England, Lloyds Banking Group and the UK Green Building Council, with JLL as the secretariat. In our discussion with JLL and the Group, it was confirmed that the 'NextGeneration Benchmark' has been established for over a decade, a result of years of collaboration with the housebuilding industry and sectoral expertise provided by the Executive Committee and the secretariat. As such, DNV concludes that the focus criteria which forms the 'NextGeneration Benchmark' are material and core to the housebuilding industry, and to the sector's sustainability initiatives. The criteria for 'NextGeneration Core', referenced in Appendix [b] of the Framework, includes: pollution & chemical use, health & safety, affordable housing, energy & carbon, placemaking, net-zero/net-positive carbon targets, building wellbeing, biodiversity, use of technology, resource use, sustainability risks, education & skills, inclusive economic development, and water consumption. In our discussion with JLL and Lloyds Banking Group, it was confirmed that 'NextGeneration Core' is derived from 'NextGeneration Benchmark', but is aimed at housebuilders outside of the 'Top 25' list as determined by NextGeneration. Eligible housebuilders will work with JLL to be rated against the whole list of criteria, and an overall score will be determined based on the weighting assigned to each criterion. On that basis, DNV concludes that the selected criteria which forms the 'NextGeneration Core' are material and core to eligible housebuilders and to an industry-aligned sustainability strategy. Having reviewed the evidence, DNV concludes that 'NextGeneration Core' score and 'NextGeneration Benchmark' score – adopted by the Group as KPIs for eligible housebuilders – and the KPIs for clients selecting their own, are based on criteria that will be relevant, material and core to the targeted housebuilders and clients' business and sustainability strategy. The rationale and options for KPI selection

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				are clearly defined and presented within the Framework and provide a foundation for ensuring the KPIs are in alignment with the SLLP.
1b	KPI - Measurability	KPIs should be measurable or quantifiable on a consistent methodological basis; externally verifiable; and able to be benchmarked, i.e., as much as possible using an external reference or definitions to facilitate the assessment of the SPTs level of ambition. Clients are encouraged, when possible, to select KPIs that they have already included in their previous annual reports, sustainability reports or other non-financial reporting disclosures to allow lenders to evaluate the historical performance of the KPIs selected. In situations where the KPIs have not been previously disclosed, clients should, to the extent possible, provide historical externally verified KPI values covering at least the previous 3 years.	In addition to reviewing the evidence below, we had several detailed discussions with Lloyds Banking Group and an interview with JLL. Evidence reviewed: • 2020 NextGeneration Sustainability Benchmark Report [online]. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction – October 2021. • NextGeneration Benchmark Criteria – 2022-2024 [online]. • NextGeneration Core Criteria – [online].	**Clients using their own KPIs:** For clients selecting their own KPIs, the Group has confirmed that in addition to being relevant, core, and material to the client's sustainability strategy and business strategy, the selected KPIs will have to be measurable or quantifiable on a consistent methodological basis, externally verifiable, and are able to be benchmarked externally. **Clients using one of the NextGeneration standards:** On the basis of the evidence reviewed, and our discussions with Lloyds Banking Group and JLL, it is in our opinion that the overall scores determined from 'NextGeneration Core' and 'NextGeneration Benchmark' are quantifiable on a consistent methodological basis. DNV notes that the criteria which forms the 'NextGeneration Benchmark' are evaluated and updated on a three-year rolling period to ensure they remain pertinent to sustainability issues in the housebuilding sector, while allowing housebuilders to benchmark their progress over time. While the underlying assessments and calculations used to determine the overall scores are not shared, DNV notes that the NextGeneration is an entity external to, and independent from, Lloyds Banking Group's clients. As such, this is seen to meet the requirement for the KPIs to be externally verifiable and able to be benchmarked using an external reference.
1c	KPI – Clear definition	A clear definition of the KPIs should be provided and should include the applicable scope or perimeter, as well as the calculation methodology.	In addition to reviewing the evidence below, we had several detailed discussions with Lloyds Banking Group and an interview with JLL. Evidence reviewed:	**Clients using their own KPIs:** For clients selecting their own KPIs, the requirement for KPI definition will have to be assessed on a case-by-case basis by the Group, as part of its Process for Loan Assessment and Approval. **Clients using one of the NextGeneration standards:**

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
			• 2020 NextGeneration Sustainability Benchmark Report [online]. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction – October 2021. • NextGeneration Benchmark Criteria – 2022-2024 [online]. • NextGeneration Core Criteria – [online].	For the 'NextGeneration Core' option, the scope and criteria have been clearly defined within the publicly available online resource referenced in Appendix [b] of the Framework. For the 'NextGeneration Benchmark' option, the scope and criteria are clearly outlined within the Framework and are further detailed within the publicly available online resource referenced in Appendix [c] of the Framework. DNV confirms that the Framework clearly defines the KPI selection from these two options as either the NextGeneration Core score or NextGeneration Benchmark score, resulting from the clients working with JLL as the secretariat to the NextGeneration Executive Committee. The score will form the basis for establishing a suitable SPT, applicable over the life of the facility.

2. Calibration of Sustainability Performance Targets (SPTs)

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Target Setting - Meaningful	The SPTs should be ambitious, realistic, and meaningful to the clients' business and be consistent with the clients' overall strategic sustainability/ESG strategy.	In addition to reviewing the evidence below, we had several detailed discussions with Lloyds Banking Group, and an interview with JLL. Evidence reviewed: • 2020 NextGeneration Sustainability Benchmark Report [online]. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction – October 2021. • NextGeneration Benchmark Criteria – 2022-2024 [online]. • NextGeneration Core Criteria – [online].	**Clients using their own KPIs:** For the clients' own approved KPIs, the Group's Green Asset Eligibility Forum (GAEF) will review the SPTs against the SLLP and ensure that best practice is followed; for instance, the GAEF will consider how ambitious, meaningful, and realistic the clients' SPTs are. **Clients using one of the NextGeneration standards:** DNV can confirm that 'NextGeneration Benchmark' has been established for over a decade; a result of years of collaboration with the housebuilding industry and sectoral expertise provided by the Executive Committee and the secretariat. This resulted in a benchmark covering 15 focus sustainability criteria, namely: company strategy and governance, reporting, future proofing, environmental site management, minimum sustainability standards, ecology and urban drainage, energy and carbon, water, waste, transport, procurement, health and safety, community and client engagement, design and placemaking, and socio-economic development. We can also confirm that 'NextGeneration Core' is derived from the 'NextGeneration Benchmark', covering the following sustainability criteria: pollution & chemical use, health & safety, affordable housing, energy & carbon, placemaking, net-zero/net-positive carbon targets, building wellbeing, biodiversity, use of technology, resource use, sustainability risks, education & skills, inclusive economic development, and water consumption. For both the 'NextGeneration Core' and 'NextGeneration Benchmark' options, as the SPT(s) will be calibrated against the benchmark score determined for the client, DNV concludes that the SPT(s) will be meaningful to the housebuilder's business and an industry-aligned sustainability strategy. The Group has further confirmed that it will determine an ambitious, meaningful, and realistic improvement of that benchmark score as the client's SPT. The SPT will be time-bound in accordance with the life of the facility.

				DNV notes that the scale of the improvement on the benchmark score will be considered on a case-by-case basis, and that it will be approved by the Group's GAEF to ensure alignment with the SLLP. On the basis of the evidence reviewed, DNV concludes the Group is committed to ensuring that the SPTs to be agreed under the different SLL options are ambitious, realistic, and meaningful to the client's business and the overall strategic sustainability/ESG strategy.
2b	Target Setting - Meaningful	SPTs should represent a material improvement in the respective KPIs and be beyond a "Business as Usual" trajectory; where possible be compared to a benchmark or an external reference and be determined on a predefined timeline, set before (or concurrently with) the origination of the loan.	In addition to reviewing the evidence below, we had several detailed discussions with the Group and an interview with JLL. Evidence reviewed: • 2020 NextGeneration Sustainability Benchmark Report [online]. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction – October 2021. • NextGeneration Benchmark Criteria – 2022-2024 [online]. • NextGeneration Core Criteria – [online].	**Clients using their own KPIs:** For client's own approved KPIs, the Group's GAEF will review the SPTs against the SLLP, and ensure best practice is followed. For instance, the GAEF will consider how the clients' SPTs go beyond the "Business as Usual" scenario, and whether there is an objective and valid reference point for the SPT, e.g., using science-based scenarios such as the SBTi alignment to the Paris Agreement, or some other official pathway. **Clients using one of the NextGeneration standards:** For 'NextGeneration Core' and 'NextGeneration Benchmark' options, the Group's GAEF will review the scale of the improvement on the client's score on a case-by-case basis. The Group has also confirmed that it will determine an ambitious, meaningful, and realistic improvement on the client's score as their SPT, which will be time-bound in line with the life of the facility. DNV can confirm the Group's commitment to ensuring that the SPTs agreed with its client's go beyond a "Business as Usual" trajectory and that this is in line with the SLLP.
2c	Target Setting – Benchmarks	The target setting exercise should be based on a combination of benchmarking approaches: 1. The clients' own performance over time for which a minimum of 3 years if called for, where feasible; a measurement track record on the selected KPIs is also recommended; and, when possible, forward-looking guidance on the KPIs; and	In addition to reviewing the evidence below, we had several detailed discussions with the Group and an interview with JLL. Evidence reviewed: • 2020 NextGeneration Sustainability Benchmark Report [online]. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework.	**Clients using their own KPIs:** The Group's GAEF Forum will review the SPTs against the SLLP and ensure that best practice is followed. For instance, this will include taking into account some or all of the following points: • How the SPT(s) go beyond the "Business as Usual" scenario, i.e., the SPT(s) should be ambitious, meaningful, and realistic. • Objective and valid reference point for the SPT, e.g., using science-based scenarios such as the SBTi, alignment to the Paris Agreement, or some other official benchmark.

		2. The SPTs relative positioning versus the clients' peers where comparable or available, or versus industry or sector standards; and/or 3. Systematic reference to science-based scenarios, or absolute levels (e.g., carbon budgets) or to official country/regional/international targets or to recognised Best-Available-Technologies or other proxies.	• New Build Housing – Lloyds Product Interaction – October 2021. • NextGeneration Benchmark Criteria – 2022-2024 [online]. • NextGeneration Core Criteria – [online].	• A clear roadmap as to how the business will achieve the SPT(s), e.g., by describing its ESG strategy, supporting ESG governance and investments, and detailing its operating strategy, i.e., through highlighting the key levers/actions that are expected to drive the performance towards the SPT(s) as well as their expected impact, in quantitative terms wherever possible. **Clients using one of the NextGeneration standards:** For 'NextGeneration Core' and 'NextGeneration Benchmark' options, as the SPTs will be set against an externally developed benchmark, the SPTs will inherently be based on a combination of benchmarking approaches, which: • Allow the client's own performance to be tracked over time. • Provide the SPTs' relative positioning versus the client's peers, who have been assessed as part of the NextGeneration standards. • Refer to sustainability best-practices for the housebuilding industry as developed by NextGeneration, a result of the collaboration between its Executive Committee members and with UK housebuilders, representing a cross-section of the entire market. DNV can confirm the Group's commitment to ensuring the SPTs agreed under the different SLL options are based on a combination of benchmarking approaches, and that this aligns with the SLLP criteria.
2d	Target setting – Disclosures	Disclosures on target setting should make clear reference to: 1. The timelines of target achievement, the trigger event(s), and the frequency of review of the SPTs; 2. Where relevant, the verified baseline or science-based reference point selected for the improvement of the KPIs as well as the rationale for that baseline or reference point to be used;	In addition to reviewing the evidence below, we had several detailed discussions with the Group and an interview with JLL. Evidence reviewed: • 2020 NextGeneration Sustainability Benchmark Report [online]. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework.	**Clients using their own KPIs:** For clients' own approved KPIs, the Group's GAEF will review the SPTs against the SLLP and ensure that best practice is followed. For instance, this will include taking into account some or all of the following points: • Objective and valid reference point for the SPT, e.g., using science-based scenarios such as the SBTi, alignment to the Paris Agreement, or some other official benchmark. • Timelines for the target achievement i.e., target observation date(s)/period(s), the trigger event(s), and the frequency of review of the SPTs.

		3. Where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place; 4. Where possible and taking into account competition and confidentiality considerations, how the clients intend to reach such SPTs; and 5. Any other key factors beyond the client's direct control that may affect the achievement of the SPTs.	• New Build Housing – Lloyds Product Interaction – October 2021. • NextGeneration Benchmark Criteria – 2022-2024 [online]. • NextGeneration Core Criteria – [online].	• Where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place. • Any other key factors beyond the client's direct control that may affect the achievement of the SPTs. **Clients using one of the NextGeneration standards:** The Group has confirmed that for 'NextGeneration Core' and 'NextGeneration Benchmark' options, a client will work with JLL as the secretariat to the NextGeneration Executive Committee, to (i) score itself against the relevant benchmark, and (ii) achieve an ambitious, meaningful, and realistic improvement on that benchmark score over the life of the facility. As such, for these two SLL options the responsibility for verifying the baseline, reviewing the benchmark criteria, and making any adjustments, will reside with NextGeneration. The Group has also confirmed that it will determine what an ambitious, meaningful, and realistic improvement of that benchmark score would be as per the client's SPT; the SPT will be time-bound in accordance with the life of the facility. DNV notes that the scale of the improvement on the benchmark score will be considered on a case-by-case basis, and that it would need to be approved by the Group's GAEF to ensure alignment with the SLLP. The timelines of target achievement, the trigger event(s), and the frequency of review of the SPTs will be included as part of the loan documentation. Based on the evidence reviewed, DNV concludes that the Group is committed to ensuring its client's targets are clearly defined, time-bound, refer to a valid reference point or benchmark, and set out the conditions for review and/or recalculation in line with the SLLP, as applicable. Exact targets for a specific transaction would need to be included in the relevant SLL documentation.

3. Financial Characteristics

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Loan Characteristics – SPT financial/ structural impact	The SLL will need to include a financial and/or structural impact involving trigger event(s) based on whether the KPI(s) reach the predefined SPT(s).	In addition to reviewing the evidence below, we had several detailed discussions with the Group. Evidence reviewed: • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction – October 2021.	The Group has confirmed that under the relevant loan agreement the applicable interest rate will be reduced if the client meets the pre-determined SPTs, as measured by the approved KPI(s). In addition, if a client fails to satisfy one or more of the selected SPTs, this will trigger an increase in the applicable interest rate. DNV notes that the exact financial structure (e.g., percentage decrease/increase in interest rates) for each loan will need to be established by the Group. A loan document, to be issued by the Group, will set out the details for any margin premium payable, in the event of a missed target. DNV confirms that the Group's commitment to defining the financial characteristics of the SLLs issued to its clients is in line with the requirements of the SLLP.
3b	Loan Characteristics – Fallback mechanism	Any fallback mechanisms in case the SPTs cannot be calculated or observed in a satisfactory manner should be explained. Clients may also consider including, where needed, language in the loan documentation to take into consideration potential exceptional events.	In addition to reviewing the evidence below, we had several detailed discussions with the Group and an interview with JLL. Evidence reviewed: • 2020 NextGeneration Sustainability Benchmark Report [online]. • Lloyds Banking Group's Housebuilding Sustainability Finance Framework. • New Build Housing – Lloyds Product Interaction – October 2021. • NextGeneration Benchmark Criteria – 2022-2024 [online]. • NextGeneration Core Criteria – [online].	**Clients using their own KPIs:** For clients' own approved KPI(s), the Group has confirmed its GAEF will review the SPT(s) against the SLLP during target setting and ensure best practice is followed. For instance, the Group's GAEF will consider, where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place, as well as other key factors beyond the client's direct control that may affect the achievement of the SPTs. On that basis, we conclude s that there appears to be little risk of the Group's clients not being able to calculate their SPT(s) performance against KPI(s) approved by the Group's GAEF. **Clients using one of the NextGeneration standards:** DNV can confirm there appears to be little risk of the Group's clients not being able to obtain a score against 'NextGeneration Core' or 'NextGeneration Benchmark'. We note that the criteria which forms the two standards are evaluated and updated on a three-year rolling period. Should there be any major changes to the benchmarks after issuance of a loan, the Group has confirmed its clients will have the following options:

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				(i) Proceeding with the original baseline methodology, or (ii) Re-baselining to the new methodology as required. The exact approach will be agreed on a case-by-case basis in discussions with the clients. DNV can confirm the Group's commitment to defining the financial characteristics of SLLs issued to its clients and that this is in line with the requirements of the SLLP.

4. Reporting commitments

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings

4a	Reporting	SLL clients should publish, and keep readily available and easily accessible:
		1. Up-to-date information on the performance of the selected KPIs, including baselines where relevant;
		2. A verification assurance report relative to the SPT outlining the performance against the SPTs and the related impact, and timing of such impact, on the loan's financial and/or structural characteristics;
		3. Any information enabling lenders to monitor the level of ambition of the SPTs.
			In addition to reviewing the evidence below, we had several detailed discussions with the Group.
			
			Evidence reviewed:
			• Lloyds Banking Group's Housebuilding Sustainability Finance Framework.
			• New Build Housing – Lloyds Product Interaction – October 2021.
				The Group has confirmed that its clients will be primarily responsible for reporting on the KPI(s) agreed for any SLLs issued under the Framework. As part of the Group's loan compliance reporting requirements under the Framework, Client Reports are required to include specific information and may vary slightly, depending on the SLL option chosen by the client:
				
				<u>Clients using their own KPIs:</u>
				• Demonstration of compliance with the KPI(s), along with an External Reviewer's assessment of the loan and related procedures, outlining:
				  ○ The selected KPI(s), including the baseline where relevant;
				  ○ The performance against the SPT and the related impact, and timing of such impact, on a financial instrument's performance;
				  ○ Any relevant information enabling the Group to monitor the progress of the KPI(s).

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		This reporting should be published regularly, at least annually, and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SLL's financial and/or structural characteristics.		• Reports may also include when feasible, and if possible: ○ Illustration of the positive sustainability impacts of the performance improvement (qualitative or quantitative); and/ or ○ Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI(s) scope, if relevant. • On a best endeavours basis, the client should publicly report information relating to their SPTs for transparency. This information will often be included in the client's integrated annual report or sustainability report. **Clients using one of the NextGeneration standards:** • Detail on the selected SPT (the improvement on the client's 'NextGeneration Core' or 'NextGeneration Benchmark' score), along with NextGeneration's assessment of their baseline. • The client's performance against the SPT and the related impact, and timing of such impact, on a financial instrument's performance. • Any relevant information enabling the Group to monitor the progress of the KPI(s). • Reports may also include when feasible, and if possible: ○ Illustration of the positive sustainability impacts of the performance improvement (qualitative or quantitative); and/ or ○ Any re-assessments of KPI(s) and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant. DNV concludes that the clients' reporting requirements, as set out by the Framework, are in line with the SLLP.

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4b	Second Party Opinion	Publication of any pre-signing external review, such as a second party opinion, or, if relevant, a verification of baselines.	In addition to reviewing the evidence below, we had several detailed discussions with the Group. Evidence reviewed: • Lloyds Banking Group's Housebuilding Sustainability Finance Framework.	The Group has appointed DNV to provide a Second Party Opinion (SPO) on the Framework to confirm its alignment to the GLP and the SLLP. For the issuance of specific loans under the Framework, DNV notes that the Group has taken the view that an SPO will not be necessary in all scenarios that are covered by this Framework.

5. Verification

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
5a	External Verification	Clients should have their performance against each SPT for each KPI independently verified by a qualified external reviewer with relevant expertise, at least once a year, and for each SPT trigger event.	In addition to reviewing the evidence below, we had several detailed discussions with the Group. Evidence reviewed: • Lloyds Banking Group's Housebuilding Sustainability Finance Framework.	The Group has confirmed that its clients must obtain independent and external verification of their performance against the SPT for each KPI, at least once a year. Verification is expected to be in the form of a sustainability compliance certificate provided to the Group by the housebuilder, together with third party verification by a qualified external reviewer with relevant expertise (e.g., an auditor, environmental consultant and/or independent ratings agency). The Group further recommends that its clients to make the verification of their performance against the SPTs publicly available, where appropriate. Upon completion, Lloyds Banking Group will evaluate the clients' KPIs against the pre-determined SPTs, to determine which SPT trigger event to apply. DNV can confirm that the Group's requirements for external verification of its clients' SPT performance, are in line with the requirements of the SLLP.