Housebuilding
Sustainability Finance Framework

Glossary

Term	Description
BREEAM	Building Research Establishment Environmental Assessment Method is a sustainability assessment method for master planning projects, infrastructure, and buildings. It recognises and reflects the value in higher performing assets across the built environment lifecycle, from new construction to in-use and refurbishment.[1]
CIB	Corporate and Institutional Banking. This is one of the business units within the Group which looks after clients with a turnover of £100m or higher.
CGFI	The Clean Growth Financing Initiative is the Group's proposition to provide discounted financing for sustainability projects. In the housebuilding sector, our smaller clients (typically SME and Mid Corporates) are eligible for CGFI, whilst larger operators will engage with our Sustainable Development Loan proposition.
Eligible Green Project	A development project where the client meets the relevant eligibility criteria for the Business & Commercial Banking and Corporate & Institutional Banking business units. These are detailed within this document on page 22, under 'Green Buildings'.
EPC	An Energy Performance Certificate measures the energy efficiency and environmental impact of a property on a scale of A-G (A being the most efficient).
ESG	ESG stands for Environmental, Social, and Governance and form a set of standards for a company's behaviour used by socially conscious investors to screen potential investments. • Environmental factors consider the quality and functioning of the natural environment. • Social factors consider the rights, wellbeing and interests of people and communities. • Governance factors consider the policies or practices by which a company is directed or controlled.
GAEF	The Green Asset Eligibility Forum is a forum comprising of senior colleagues from across the Business & Commercial Banking and Corporate & Institutional Banking business units including Portfolio Analytics, Lending Products, Risk, Coverage and Sustainability & Responsible Business. This forum sets the eligibility criteria for Loan Propositions within these business units and convenes meetings weekly to review and consider client transactions that have been escalated from either the CGFI mailbox or the RE&H GWP (defined later in this glossary).

[1] Description as taken from the BREEAM website; more information available here: **BREEAM - Sustainability Assessment Method**

Term	Description
GLPs	Green Loan Principles[2] are a high-level framework of market standards and guidelines, published by the LMA together with the Asia Pacific Loan Market Association and the Loan Syndications and Trading Association and with the support of the International Capital Markets Association, providing a consistent methodology for use across the green loan market.
Green Loans	Green Loans, referred to in this document, relate to any loan instrument made available exclusively to finance a new Eligible Green Project, in the opinion of the Group.
Group	Group means the group of companies including Lloyds Banking Group plc and all of its direct and indirect subsidiaries. For the purpose of this Framework, the scope covers the following business units: Business & Commercial Banking and Corporate & Institutional Banking[3].
HQM	The Home Quality Mark (HQM)[4] is an independently assessed certification scheme for new homes. It awards certificates with a simple star rating for the standard of a home's design, construction, and sustainability.
JLL	Jones Lang LaSalle performs the secretariat function for the NextGeneration Initiative.
KPIs	Key Performance Indicators are a measurable value that demonstrates how effectively a company is achieving key business objectives, in this context, external ratings and/or equivalent metrics which measure improvements in the borrower's sustainability profile.
LEED	Leadership in Energy and Environmental Design[5] is a green building rating system. Available for virtually all building types, LEED provides a framework for healthy, highly efficient, and cost-saving green buildings.
LMA	The Loan Market Association aims to improve liquidity, efficiency, and transparency in the primary and secondary syndicated loan markets in Europe, the Middle East and Africa.

[2] As last updated in February 2021 and available here: **LMA Green Loan Principles**

[3] Business Banking (which covers businesses with a turnover of £3m and below) is out of the scope of this Framework.

[4] Description as taken from the HQM website; more information available here: **Home Quality Mark – BRE Group**

[5] Description as taken from the US GBC website; more information available here: **LEED rating system | U.S. Green Building Council (usgbc.org)**

Term	Description
Loan Propositions	We offer three Loan Propositions that support the housebuilding sector with property development[6] in the Business & Commercial Banking and Corporate & Institutional Banking business units: i. CGFI, as defined earlier in this glossary provides "entry level" support for housebuilders and developers. ii. Sustainable Development Loans (SDLs), as defined later in this glossary for a larger operator and iii. Sustainability-Linked Loans (SLLs), as defined later in this glossary for a larger operator.
Mid Corporates	This is a customer segment which sits within the Business & Commercial Banking business unit. It looks after clients with a turnover of between £25m and £100m.
NextGeneration	An organisation which has developed sustainability standards in collaboration with the construction industry relating to high-quality, sustainable homebuilding[7].
Passivhaus	The Passivhaus Trust[8] is an independent industry organisation that promotes the adoption of Passivhaus in the UK. Passivhaus adopts a whole-building approach with clear, measured targets, focused on high-quality construction, certified through an exacting quality assurance process.
RCFs	Revolving Credit Facilities are a form of credit issued by a financial institution that provide the borrower with the ability to draw, repay and redraw funds again. A revolving loan is considered a flexible financing tool due to its repayment and re-borrowing accommodations.
RE&H GWP	The Real Estate & Housing Green Working Party is a forum comprising of senior colleagues from across the Business & Commercial Banking and Corporate & Institutional Banking teams including Portfolio Analytics, Lending Products, ESG Finance and the Real Estate & Housing Coverage teams. This convenes meetings monthly (or ad hoc where time critical) to review and approve Green and Sustainability-Linked Real Estate & Housing transactions for the real estate, housebuilding and social housing sectors.

[6] We offer an additional proposition to our Corporate and Institutional Banking clients to finance or refinance existing buildings, which is out of the scope of this Framework.

[7] NextGeneration is a sustainability benchmarking system for UK housebuilders'. More information available here: **nextgeneration-initiative.co.uk**

[8] Description as taken from the Passivhaus Trust website, more information available here: **What is Passivhaus?**

Term	Description
SAP	The Standard Assessment Procedure[9] is the methodology used by the UK Government to assess and compare the energy and environmental performance of dwellings. SAP was developed by the Building Research Establishment, as a tool to help deliver energy efficiency policies.
SDLs	Sustainable Development Loans are the Group's proposition to provide discounted financing for sustainability projects within the housebuilding sector for larger clients.
SLLs	Sustainability-Linked Loans are types of loan instruments which incentivise the borrower's achievement of ambitious, predetermined sustainability performance objectives.
SLLPs	Sustainability-Linked Loan Principles[10], published by the LMA together with the Asia Pacific Loan Market Association and the Loan Syndications and Trading Association provide a high-level framework, enabling all market participants to clearly understand the characteristics of a Sustainability-Linked Loan.
SMEs	Small and Medium Sized Enterprises. This is a customer segment which sits within the Business & Commercial Banking business unit. It looks after clients with a turnover of between £3m and £25m.
SPTs	Sustainability Performance Targets are the objectives (described in terms of KPIs) to be met by a client under an SLL.
Sustainability and ESG Financing team	The Group's Sustainability and ESG Finance Team or its successor who currently serve the Corporate and Institutional Banking business unit.
TCFD	The Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.
UN SDGs	The 17 UN Sustainable Development Goals were set in 2015 as part of UN Resolution 70/1, the 2030 Agenda for Sustainable Development. The UN SDGs are intended to provide a blueprint to achieve a better and a more sustainable future for all. They are aimed at addressing the global challenges faced by society, including those related to poverty, inequality, climate change, environmental degradation, peace, and justice. The UN SDGs are intended to be achieved by 2030.

[9] Description as taken from the Government website; more information available here: **Standard Assessment Procedure**

[10] As last updated in March 2022 here: **LMA Sustainability-Linked Loan Principles**

SECTION

1 Introduction

SECTION

1 Introduction

1.1 Purpose of this Sustainability Finance Framework

The purpose of this document is to outline the support we offer the housebuilding sector to build new houses, from some of the smallest developers to the largest housebuilders. This Sustainability Finance Framework (hereafter referred to as the "Framework") sets out the underlying eligible qualifying purposes, themes, and activities to classify the Group's Loan Propositions as sustainable finance in the housebuilding sector. The Framework aims to establish a consistent and comprehensive methodology for the classification and reporting of these financial products as sustainable[11].

This Framework outlines the sustainable finance products and propositions offered by the Group to support developers and housebuilders with property development.

There are two types of Loan Propositions:

i. **"Use of Proceeds"** or "Green" Loans, which support a client's specific sustainable projects.

ii. **"Sustainability-Linked"** Loans, which align to a client's corporate strategy to embed sustainability goals by reference to agreed SPTs.

This Framework lays out the next step in our commitment to support the creation of national sustainability standards for housebuilding finance that:

- Supports our housebuilder and developer clients' financing requirements (all lending is subject to status and the required product, credit and other internal approvals being granted).
- Enhances understanding and implementation of best practice of sustainability, whilst also deepening relationships and collaboration between housebuilding clients and the Group to support the sector's transition to net zero.
- Aligns to LMA principles, supporting 'Use of Proceeds (Green Loans)' via the GLPs[12] and 'Sustainability-Linked' Loans via the SLLPs[13]. DNV has been appointed to confirm the alignment of this Framework to the LMA principles, their **Second Party Opinion is available here**.

This Framework lays out the next step in our commitment to support the creation of national sustainability standards for housebuilding finance.

[11] The environment within the built environment, financial services and sustainable finance is a moving landscape and as such we may review from time to time in the context of emerging new definitions, regulations and best practice. This is further covered in the disclaimer on page 34.

[12] As published here at February 2021: **LMA Green Loan Principles**

[13] As last updated here in March 2022: **LMA Sustainability-Linked Loan Principles**

1.2 About Lloyds Banking Group

The Group is the UK's largest retail and commercial financial services provider, with 26 million clients and a presence in nearly every community. We have an important role to play in supporting the UK economy through lending, deposits, risk management and the efficient flow of funds, while working with others to help build an inclusive, greener, and more resilient economy.

Building on our strong foundations, our purpose of Helping Britain Prosper forms the basis of our new strategy to profitably deliver for all of our stakeholders. Core to our purpose and strategy is our focus on building an inclusive society and supporting the transition to a low carbon economy. This is where we can make the biggest difference, whilst creating new avenues for our future growth. It is only by doing right by our customers, colleagues, and communities that we can achieve higher, more sustainable returns for shareholders.

To ensure that our purpose is at the heart of our business, strategy, and culture, we have developed a clear and ambitious mission, which defines what it means to Help Britain Prosper. This mission will frame our plans, shape current and future decisions, and drive impact beyond our business-as-usual activities. It exists to guide the actions of every colleague across the Group, every day.

Find out more about our Strategy and Purpose.

Our purpose is Helping Britain Prosper

We achieve this by creating a more sustainable and inclusive future for people and businesses, thereby shaping finance as a force for good.

Core to our purpose and strategy is our focus on building an inclusive society and supporting the **transition to a low carbon economy**

1.3 Our Alignment to the UN Sustainable Development Goals and our ESG credentials

With our purpose of Helping Britain Prosper firmly in mind, the UN SDGs provide a sound framework for identifying how we can play a more active role in the sustainable development of UK society. They also help frame how we use our operating model, resources, and skillsets to respond to some of the societal challenges faced by the UK. The Group is focusing on the UN SDGs with the highest materiality to our business and sector, based on commercial exposure, the sphere of the Group's impact, and those of the highest materiality to our key stakeholders (based on our research and insights).

Some of the areas of activity guided by our purpose include, but are not limited to, action and initiatives around the following topics in support of the achievement of specific UN SDGs:

Promoting financial inclusion and education

Financial inclusion, wellbeing and resilience of our customers to support reduced inequalities

SDG

Inclusive and diverse business

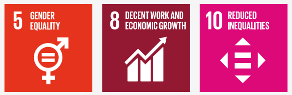
Building an inclusive business and promoting colleague and customer wellbeing, improving access to decent living, to support good health and wellbeing

SDGs

Enabling regional development and improving access to quality housing

Helping businesses of all sizes around the country, and funding more inclusive and diverse businesses, to thrive and create quality jobs to support gender equality

SDGs



Supporting the transition to a low carbon economy

Climate and green finance opportunities, emissions reduction and risk management, to support global and national climate action

SDGs

Memberships, Awards & Accreditations

Sustainability is a global challenge that requires collaboration across companies and industries to ensure the risks and opportunities can be adequately identified and managed. To support this, we participate in several industry initiatives and have signed up to key principles that drive action on sustainability, including:

Ranked as **A- by CDP** for Climate Change in 2021

Ranked as a **leader among 189 companies** in the banks industry by the Morgan Stanley Capital International Index in 2021

We have achieved **Carbon Trust Standard** certification for reducing both **carbon and waste**

Net-Zero Banking Alliance

We are a founding member of the **Net Zero Banking Alliance (NZBA)**, which aims to accelerate the transition to net zero emissions by 2050

We are a **Gold Leaf Member** of the UK Green Buildings Council

We joined the Executive Committee of the **NextGeneration Initiative** in 2021

Proud to have been named **Business Bank of the Year** for 17 consecutive years at the FDs' Excellence Awards

Member of the GFI's **Coalition for the Energy Efficiency of Buildings (CEEB)**, developing solutions to help decarbonise the UK's buildings

We have renewed our commitment to the **World Green Building Council Net Zero Carbon Buildings Commitment**. This includes the new embodied carbon reduction requirement for new builds and major refurbishments by 2030

1.4 Our Sector Based Approach

Climate change is one of the most urgent issues facing society today. We believe that the transition to a low carbon economy represents an opportunity to build a resilient future, creating new businesses and jobs for the UK. The transition will require significant transformation of every sector at scale. We want to play our part as the UK's largest financial services provider in supporting the transition to net zero and we support the aims of the 2015 Paris Agreement, the UK Government's net zero target, the Ten Point Plan for the Green Industrial Revolution, and the recommendations of the TCFD.

We continue to progress towards our net zero ambitions across our business lines and our own operations. We have identified our priority areas of focus, which form a fundamental part of our overall approach to net zero and represent where we see the greatest challenge and opportunity to help accelerate the transition to a low carbon economy for the UK, which are:

- Greening the built environment
- Supporting the energy transition
- Low carbon transportation
- Sustainable farming and natural capital
- Sustainable investments and pensions

40%

The built environment accounts for around **40%** of **CO_2 emissions in the UK**[15]

1.5 Strategic Priority to support the Housing sector

Our focus on Housing

The Group is one of the largest funders[14] to the UK housebuilding sector, and we understand that we have a significant role to play in helping to house the nation, whether that is through mortgages for customers or supporting housebuilders and housing associations. Access to secure, high quality, sustainable homes is core to societal wellbeing and to make this a reality, we're providing long standing support for this important sector.

The coronavirus pandemic has highlighted just how vital access to appropriate housing is. Furthermore, we must also make sure that homes support the UK government's sustainability targets and build towards a greener future. The built environment accounts for around 40% of CO_2 emissions in the UK[15].

Decarbonisation of homes, new and existing, will be essential to delivering the UK Net Zero target[16]. As a result, the UK Government is currently consulting on a number of measures to address this. Most notably, the Future Homes Standard will come into effect in England in 2025 and requires that homes produce 75%-80% less CO_2 emissions compared to current building regulations.[17]

Our strategic ambition includes supporting the building of sustainable, affordable, and high-quality housing while transitioning to a low carbon economy. In doing so, we'll also support improved financial health and wellbeing for households across the UK and help businesses in the construction industry to recover and adapt post the pandemic.

[14] Enabling access to homes in the UK – Lloyds Banking Group
[15] Climate Change Committee – The Sixth Carbon Budget
[16] Net Zero: The UK's contribution to stopping global warming (CCC)
[17] The Future Homes Standard

Our activity in the Housing sector

Green Buildings Tool

To help support a move towards sustainable buildings, our customers have free of charge access to our Green Buildings Tool – a digital insights calculator that helps to identify, evaluate, and understand the estimated outcomes of potential investments to make properties greener. From a single property through to larger portfolios, the tool helps clients analyse energy saving initiatives that affect the EPC rating and reveals initiatives/properties that offer the best return on investment with regards to carbon reduction.

Social Housing

In response to a lack of affordable housing, which we recognise can be a potential barrier to tackling social disadvantage, we have worked with more than 200 housing associations across the UK. Over the last four years, we have provided over £12 billion of funding to the social housing sector, and, to further support housing associations, we have become early adopters of the new Sustainability Reporting Standards. These aim to standardise ESG reporting in the social housing sector by providing housing associations with a framework for implementation and reporting of their ESG performance, as well as unlocking investment. We have also secured colleague representation on the Board of Sustainability for Housing Limited which is responsible for the reporting standards.

We recognise the retrofitting challenge residential landlords and housing associations face across their portfolios to reduce their environmental impact and generate significant economic and societal benefits. To support the retrofit challenge in social housing, in 2021 we provided £3.4 billion of new funding, of which £2.4 billion was sustainable (green or social use of proceeds) or sustainability-linked (including ESG key performance indicators). Additionally, in 2021, around 240,000 social housing buildings were assessed by our Green Buildings Tool to help the sector continue its decarbonisation journey.

Regeneration Brainery

To support closing the future skills gap in UK housing, in 2021 alongside other partners[18], we announced a three-year partnership with **Regeneration Brainery** that encourages school leavers from socially and economically deprived areas into real estate, construction, and regeneration. To date, we have supported 50 school leavers with two Brainieries held in Manchester with more Brainieries in plan across the UK in 2022.

Housing Growth Partnership

We also continue to drive the **Housing Growth Partnership (HGP)**, providing financial support and mentoring to small and mid-sized housebuilders with over 2,500 HGP supported homes built across the UK to date, with a total pipeline of almost 5,000 homes. During 2021, HGP 2 was launched to support the construction of a wider tenure of homes to meet the diverse and evolving UK housing need. The Regional Growth Initiative was also introduced to help small and medium-sized housebuilders create more homes in the North of England, the Midlands, and the regions of Scotland.

Supporting closing the future skills gap in UK housing

To date, we have **supported 50 school leavers with two Braineries** held in Manchester with more Braineries in plan across the UK in 2022.

[18] This includes BDP, Capital & Centric and Homes England.

NextGeneration Initiative

In March 2021, we joined the Executive Committee of the **NextGeneration Initiative** which was established to further enhance the transparency and sustainability ambitions of the housebuilding sector.

The NextGeneration Initiative has been established for over 15 years and provides the leading sustainability benchmark for the UK's largest 25 housebuilders, with over 60 different criteria across 15 focus areas[19] which are weighted based on their overall sustainability impact.

The NextGeneration Benchmark was originally developed in 2006 to build upon the successes of previous benchmarking exercises undertaken by Insight Investment and WWF UK. The NextGeneration Benchmark was designed for assessing the corporate sustainability of the largest housebuilders in the UK, but recently the service offering has expanded to support all housebuilders across the UK, regardless of size to improve their sustainability performance.

As part of our work as a member of the NextGeneration Executive Committee, we have helped to develop:

i. **'NextGeneration Project'** – This is an assessment for housebuilders to use to demonstrate the sustainability of an individual development, with distinct levels of award provided depending on the number of criteria achieved. This is to support housebuilders to communicate their sustainability and improve their performance.

ii. **'NextGeneration Core'** – This is an assessment based on a core set of sustainability criteria curated from the NextGeneration Benchmark that is designed for assessing the corporate sustainability of mid-corporate housebuilders and supporting them to improve their sustainability performance.

These two standards have been approved by the NextGeneration Executive Committee and complement the existing NextGeneration Benchmark.

Together all three initiatives enable operators in all segments of the housebuilding sector to assess and improve their sustainability performance and access dedicated finance to achieve this.

The Group's support of these initiatives also stems from the belief that these standards unlock a key obstacle to housebuilders and developers (particularly at the smaller end of the market) being able to pursue effective sustainability objectives and report on the same.

The **NextGeneration Initiative** has been established for over a decade and provides the leading sustainability benchmark for the

UK's largest

25

housebuilders,

with over **60 different criteria across 15 focus areas**[19] which are weighted based on their overall sustainability impact.

[19] Detail on these focus areas can be found here: **nextgeneration-initiative.co.uk**

1.6 Scope of Framework

It is important to the Group that sustainable finance is accessible and available to as many operators as possible. Within the Framework, we have intentionally taken an approach to ensure that the broader housebuilding sector is covered from the some of the smallest developers to the largest housebuilders, and that the resources available to each sized operator are considered when designing the relevant Loan Proposition. For this Framework, the scope covers the following business units: Business & Commercial Banking and Corporate & Institutional Banking[20].

The housebuilding sector generally has a material impact on UK carbon emissions. This document outlines the Group's sustainable finance offering for the housebuilding sector but for completeness, the Group does also support housebuilders or developers who do not opt for a sustainable finance product. For these clients, all lending is subject to status and the required product, credit and other internal approvals, which would include meeting certain minimum ESG requirements as detailed in the 'customer monitoring and due diligence section' of **our sector statements here** (albeit not as stringent as those applicable to sustainable finance products).

Sustainable Loan Propositions

We offer a range of sustainable finance propositions and tools which are constantly evolving. As at the date of this Framework, those Loan Propositions that support the housebuilding sector for property development (the "Loan Propositions") are detailed below.

These Loan Propositions fall under two categories:

i. **Use of Proceeds (Green Loans)** – These are a type of loan instrument made available exclusively to finance, in whole or in part, new and/or existing Eligible Green Projects.

ii. **Sustainability-Linked** – These are a type of loan instrument which incentivise the borrower's achievement of ambitious, predetermined sustainability performance objectives, as detailed in the glossary.

The use of proceeds in relation to a Sustainability-Linked Loan is not a determinant in its categorisation and, in most instances, Sustainability-Linked Loans will be used for general corporate purposes.

It is important to the Group that sustainable finance is accessible and available to as many operators as possible.

[20] Business Banking (which covers businesses with a turnover of £3m and below) is out of the scope of this Framework.

Use of Proceeds Loan Propositions

Use of Proceeds Loan Propositions (Green Loans) are available via two existing propositions: (i) CGFI for small and medium-sized housebuilders and (ii) Sustainable Development Loans for larger operators.

For project based financing, the Group segregates between these propositions on the basis of the transaction size, with different eligibility criteria, as depicted in the table below:

				Market Segment	
	Proposition	**Detail**	**Eligibility criteria**	**SMEs & Mid Corporates[21]** Transaction size below £6m, unless otherwise directed by development policy	**Corporate & Institutional Banking** Transaction size above £6m, unless otherwise directed by development policy
Use of Proceeds	Clean Growth Financing Initiative (CGFI) 1	Entry level access to discounted financing for eligible green projects	CGFI eligibility criteria as detailed in section 2.1.1.	✓	X
Use of Proceeds	Sustainable Development Loan (SDL)[22] 2	Access to discounted financing for the largest eligible green projects	SDL eligibility criteria, as detailed in section 2.1.1.	X[23]	✓

[21] SMEs and Mid Corporates sit within the Business and Commercial Banking business unit and are both defined in the glossary.

[22] For SDLs, these are also referred to as Property Development Loans and are offered to clients in Corporate & Institutional Banking (CIB).

[23] Mid Corporate Property Developers sit in CIB and therefore are covered by the CIB product approval. For any loans which are originated in Mid Corporates, these will be looked at on an exceptions only basis.

Sustainability-Linked Loan Propositions

For Sustainability-Linked Loans, the specific KPIs will be linked to one or more of the following:

(i) A client may select one or more of their own KPIs, subject to the Group's approval depending on the nature of the business and/or;

(ii) An improvement in a client's 'NextGeneration Core' score, or;

(iii) An improvement in a client's 'NextGeneration Benchmark' score.

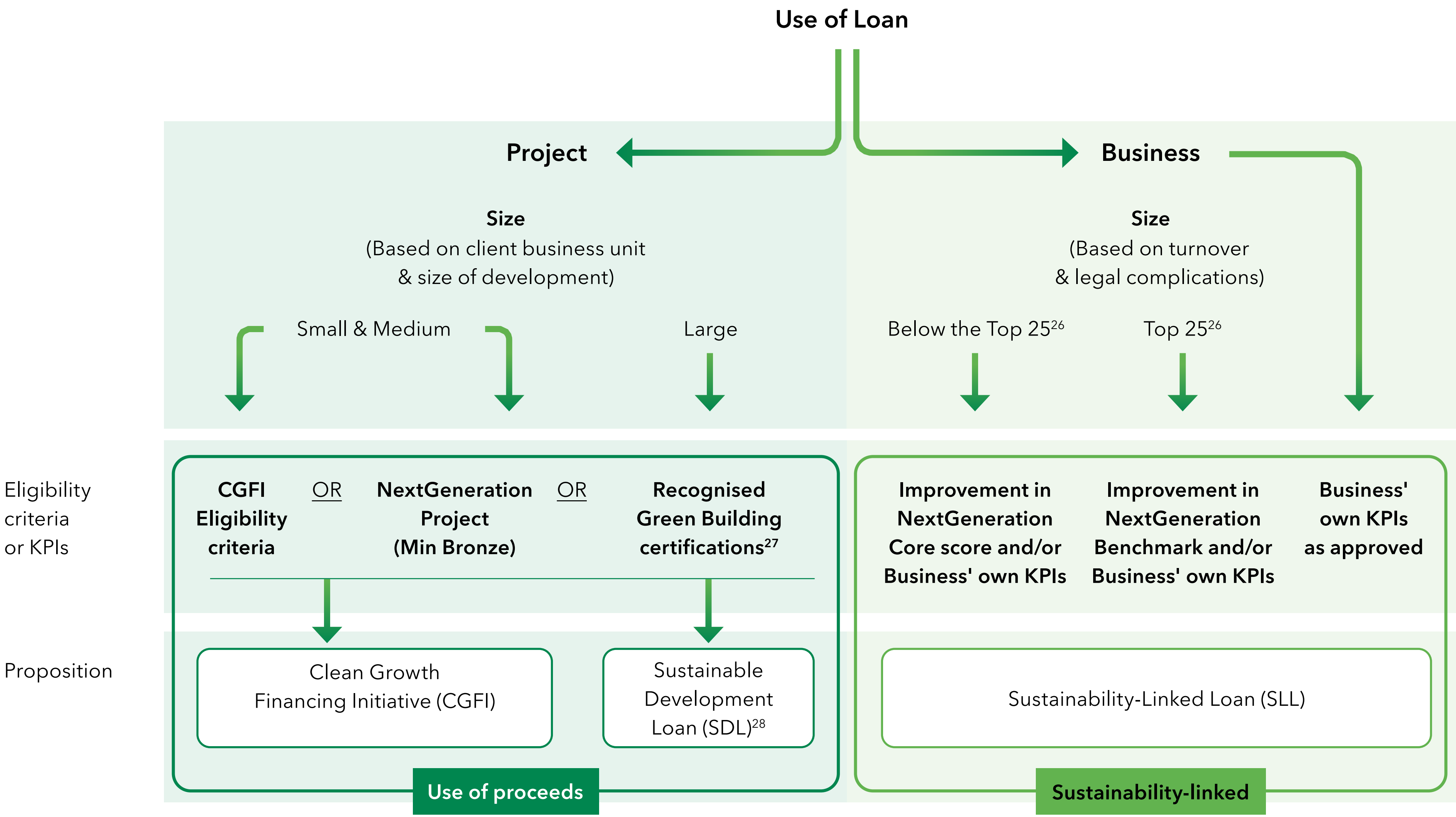
For sustainability linked financing, the Group segregates between these propositions on the basis of the client turnover, as depicted in the table below:

	Product	Performance Targets	Detail	Market Segment		
				SMEs Turnover: £3m - £25m	Mid Corporates Turnover: £25 - £100m	Corporate & Institutional Banking Turnover: £100m+
Sustainability Linked	Sustainability Linked Loans (SLLs) 3	Client selects own KPIs	Sustainability linked financing for housebuilders with sufficient capability to establish own material KPIs	x	x[25]	✓
Sustainability Linked	Sustainability Linked Loans (SLLs)	An improvement in 'NextGeneration Core' score and option for client to also select own KPIs	Sustainability linked financing for mid market sized housebuilders based on a business' corporate sustainability strategy rather than a specific project	x	x[25]	✓
Sustainability Linked	Sustainability Linked Loans (SLLs)	An improvement in 'NextGeneration Benchmark' score and option for client to also select own KPIs	Sustainability linked financing for the largest[24] housebuilders based on a business' corporate sustainability strategy rather than a specific project	x	x[25]	✓

[24] Mid Corporate Property Developers sit in CIB and therefore are covered by the CIB product approval. For any loans which are originated in Mid Corporates, these will be looked at on an exceptions only basis.

[25] Based on NextGeneration's assessment of the Top 25 by housing turnover and legal completions.

Our full offering to the housebuilding sector for property development is depicted visually in the tree diagram below:



[26] Based on NextGeneration's assessment of the Top 25 by housing turnover and legal completions.
[27] This includes but is not limited to BREEAM, LEED, HQM or Passivhaus accreditation as detailed in the eligibility criteria in section 2.1.1.
[28] For SDLs, these are also referred to as Property Development Loans and are offered to clients in the Corporate & Institutional Banking business unit.

SECTION 2 Sustainability Finance Framework

SECTION 2

Sustainability Finance Framework

Introduction

Sustainable finance is finance made available through two types of propositions:

(i) Use of Proceeds (Green Loans) and

(ii) Sustainability-Linked Loans.

For Use of Proceeds Loans, typically the lending product we offer is a term loan via one of our two propositions:

(i) **a CGFI loan** – for an SME or Mid Corporate sized housebuilder, or;

(ii) **a Sustainable Development Loan**, for a larger operator in the CIB business unit.

For Sustainability-Linked Loans, the lending product we offer is primarily an RCF, but we may also offer a term loan where appropriate.

Process for Loan Assessment & Approval

For the Loan Proposition to be approved, it must undergo both the Group's decision making process and meet specific sustainable finance criteria for housebuilders and developers which includes the following steps:

Steps	Description
1) Proposition Selection	An initial evaluation is conducted on the client and sustainable finance opportunity to determine the most relevant proposition for the client. This is informed by market segment, and where appropriate for our larger clients, our Sustainability and ESG Financing team. For each of the propositions, there is a comprehensive internal sales process to be observed.
2) Eligibility Criteria	(i) To be an eligible 'Green Project,' the client must meet the relevant Group eligibility criteria which vary depending on the scale of the project. As detailed in section 2.1.1., these will either be our: (a) CGFI eligibility criteria, (b) NextGeneration Project criteria (minimum bronze level), (c) other equivalent or better standards, or (d) our Sustainable Development Loan eligibility criteria. (i) For Sustainability-Linked Loans, these will be structured in line with the LMA's SLLPs and the Group's application of the SLLPs.
3) Approval Process	Various levels of internal approval are required for each of the propositions, with relevant escalation processes through the CGFI mailbox, RE&H GWP and/or GAEF. For SLLs, external verification of annual KPI performance is mandatory as per the LMA's SLLPs, and an SLL will not be approved without confirmation of this.
4) Identify Financial Mechanisms	The financial benefits to incentivise the delivery of sustainability performance will be determined. These will generally be in the form of a discount which reduces the cost of debt to the client. SLLs may also include margin premiums triggered by non-achievement of SPTs. The financial mechanisms will be guided by the relevant governance required.

2.1 Financing linked to Use of Proceeds (Green Loans)

The GLPs require that the following four core components should be present in a Use of Proceeds financing instrument:

1) Use of Proceeds
2) Process for Project Evaluation and Selection
3) Management of Proceeds
4) Reporting

We set out how each of these components is addressed in the delivery of the Loan Proposition in the following sections.

2.1.1 Use of Proceeds

To qualify for 'Use of Proceeds' Loan Propositions under this Framework the client must be seeking finance for a housing development which falls within the LMA's "Green Buildings" category as articulated under the Group's criteria.

Green Buildings

New private housing falls within the Green Buildings category under the Group's criteria for 'Eligible Green Projects.' The Loan Proposition criteria are set out below:

Green Project Category / Description	Use of Proceeds Loan Proposition / criteria	Reference financial line item	
Green Buildings Development costs associated with delivering new private homes	**CGFI** **For entry level financing (SMEs) and mid-market sized business (Mid Corporates)** • We require 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, • Meets the NextGeneration Project criteria at a minimum bronze level (detailed in appendix A). This will be independently verified by JLL as the secretariat to NextGeneration, OR, • Meets other equivalent standards (or better) such as HQM and BREEAM as below.	Capex	It is worth noting that these eligibility criteria may be reviewed in the future to remain in line with evolving requirements and represent the current position at the point in time at which this Framework is published.
Green Buildings Development costs associated with delivering new private homes	**Sustainable Development Loans** **For larger operators (Corporate & Institutional Banking)** SDL eligibility criteria* 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 HQM rating e.g. 4* • An appropriate BREEAM rating e.g. Very Good (including acceptable energy and emissions related credits) • Meets the NextGeneration Project criteria at a minimum bronze level (detailed in appendix A). • Other building certification or equivalent approaches to an adequate performance level in line with market observed standards. **For both CGFI & SDLs** By exception, we may offer marginal flexibility on these eligibility criteria such as accepting a lower standard on a single deal where there are compelling other positive sustainability characteristics. An absolute floor of EPC B for each individual unit will always be required. Equally a material negative factor could lead to the Group excluding a deal otherwise meeting our eligibility criteria.	Capex	

2.1.2 Process for Project Evaluation and Selection

For Use of Proceeds Loan Propositions, there are two methods of establishing project evaluation and selection for the client depending on the size of the Eligible Green Project.

Use of Proceeds Loan Proposition	Size of firm	Evaluation and Selection Process
Clean Growth Financing Initiative	SMEs and Mid-Corporate housebuilders & developers	Meets CGFI eligibility criteria **OR** Meets NextGeneration Project criteria at a minimum bronze level **OR** Meets other equivalent standards (or better).
Sustainable Development Loans (SDLs)	Larger operators	SDL eligibility criteria, which includes the NextGeneration Project criteria at a minimum bronze level.

To ensure transparency, for any Use of Proceeds Loan Propositions, the net proceeds must be managed in accordance with the Group's eligibility criteria as agreed by GAEF. This is a forum comprising of senior colleagues across Portfolio Analytics, Lending Products, Risk, Coverage and Sustainability and Responsible Business which sets the Group's eligibility criteria for Use of Proceeds Loan Propositions and convenes meetings weekly to review and consider client transactions that have been escalated from either the CGFI mailbox or the RE&H GWP. Escalations will include the consideration of deals to be reviewed on an exceptional basis as covered in 2.1.1 which must obtain approval from either the RE&H GWP or GAEF.

The eligibility criteria are guided by various external bodies which include but are not limited to:

(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) and

(v) EU Taxonomy for Sustainable Activities and

(vi) Any other relevant resources which are published over time.

The development of the CGFI criteria has been supported by a third-party environmental consultancy and this is reviewed annually.

2.1.3 Management of Proceeds

In line with the Group's internal monitoring processes for the Use of Proceeds Loan Propositions made available under this Framework; relationship managers work with their clients to manage loan proceeds.

Within SME & Mid Corporates, relationship managers will:

i. Ensure the Bank 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 Bank and to show no issues of concern to the Bank.

ii. Work with their clients to release the proceeds in amounts of not less than £25,000, provided that in respect of each drawing the Bank shall have first received confirmations (each in a form and from a party acceptable to the Bank) 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 Bank otherwise agrees) exceed the total expenditure detailed in the confirmations received by the Bank.

Each borrower to which this Framework applies 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.

For larger operators, where we offer SDLs, clients are required to:

i. Ensure that conditions precedents are satisfied prior to the availability of a facility which include that the client demonstrates the loan proceeds will be allocated to an Eligible Green Project.

ii. The client instructs a Monitoring Surveyor to:

    a. Confirm that the funds are being drawn down for expenditures relating to the Eligible Green Project.

    b. Representations will be made by the client relating to ongoing compliance with Green Provisions (as defined by the SDL eligibility criteria).

Declassification

Where an Eligible Green Project subsequently does not meet the Eligibility Criteria, the intention is that the related loan will be declassified by the Group and treated as a conventional loan with any sustainability performance linked margin discount ceasing to apply. This position would be reflected in any external ESG-related reporting. For the avoidance of doubt, declassification does not constitute an event of default.

- For CGFI deals, the relationship manager would need to notify this to Lending Products to have this loan declassified.
- For SDLs, declassification would also involve any beneficial financial features associated with that loan to be disapplied. This would occur, amongst other circumstances where the annual reporting (or other) demonstrated that the project no longer qualified as an Eligible Green Project.

2.1.4 Reporting

Client Reporting

CGFI Loan Proposition's documentation requires clients to provide indicative EPC certificates, which include SAP scores including the architect's calculations, before approval of any Loan. The Group also requires housebuilders and developers to provide final EPC certificates upon completion for each unit built that has been funded by the CGFI loan; this is the minimum reporting requirement for CGFI, regardless of the eligibility criteria selected. For clients who select to use NextGeneration Project or another equivalent (or better) accreditation, the Group would request copies of the award certification.

The SDL Loan Proposition's documentation contains obligations requiring clients to provide accurate and up to date information on the green credentials of the Eligible Green Project, prior to the advance of the loan, throughout the duration of the loan and at completion.

Prior to each advance, the Group will obtain evidence from the client of:

- The assets to which loan proceeds are allocated.
- The amounts allocated.
- The nature of the Eligible Green Project.

The Group will require the client to certify annually that they continue to maintain the relevant green certification. The Group also may collate evidence on the expected green impact of the projects.

During the term of the loan, a client shall ensure that the information delivered to the Group in this regard, is accurate and up to date.

Impact reporting

When and where feasible, the Group will report granular metrics relevant to the projects funded by the Use of Proceeds Loan Proposition within its annual ESG reporting. Such information may include:

Eligible Green Project Category	Description	Indicative Impact Metrics
Green Buildings	We require 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).	• Number of new homes we've financed that meet Group green lending criteria. • Weighted average SAP score per unit for the green lending book (where SAP score was the lead eligibility criteria). • If SAP score is not the lead eligibility criteria, then we may report the number and proportion (%) of new developments with the relevant level external certification (such as BREEAM accreditation for example). • Relevant case studies.

2.2 Sustainability Linked Loans (SLLs)

The SLLPs apply the following five core components to SLLs:

1) Selection of KPIs
2) Calibration of SPTs
3) Loan Characteristics
4) Reporting
5) Verification

SLLs are a type of loan instrument which incentivise the borrower's achievement of ambitious, pre-determined sustainability performance objectives. The borrower's sustainability performance is measured using pre-agreed sustainability performance targets (SPTs), as measured by pre-defined key performance indicators (KPIs), which may comprise or include external ratings and/or equivalent metrics, and which measure improvements in the borrower's sustainability profile. The proceeds advanced under an SLL are not determined to fund a specific project but to fund, in most instances, general corporate purposes where there is a corporate strategy with clear sustainability objectives.

2.2.1 Selection of Key Performance Indicators (KPIs)

SLLs look to improve the borrower's sustainability profile over the term of the loan. They do so by aligning loan terms to the borrower's performance which is measured using one or more sustainability KPIs.

As part of our Loan Propositions, we would structure a client's SLL in one of three ways, as detailed below:

(i) A client may select one or more of their own KPIs, subject to the Group's approval depending on the nature of the business **and/or**;

(ii) An improvement in a client's 'NextGeneration Core' score, **or**;

(iii) An improvement in a client's 'NextGeneration Benchmark' score.

Within the LMA's guidance on the application of the SLLPs in the real estate sector, appendix 1 highlights that a global ESG assessment can be a qualifying KPI for a SLL, with the NextGeneration benchmark explicitly referenced as an example[29].

Clients can access an SLL in one of three ways:

(i) Client's own KPIs

- The Group and client agree to KPIs which meet the following requirements in line with the SLLPs, amongst other requirements:
  - Relevant, core and material to the borrower's overall business and of high strategic significance to the borrower's current and/or future operations.
  - Measurable or quantifiable on a consistent methodological basis.
  - Externally verifiable and able to be benchmarked externally.
- The client may refer to the various metrics included in both NextGeneration Benchmark and NextGeneration Core to help identify potential KPIs. The metrics included in the two standards form a broad spectrum of potential KPIs that the market has determined to be particularly relevant for the housebuilding sector.

AND/OR

(ii) NextGeneration Core (non- 'Top 25' as determined by NextGeneration)

- Client works with JLL as the secretariat to the NextGeneration Executive Committee to score itself against the NextGeneration Core criteria (see Appendix B)
- Client works with the Group to set an ambitious, meaningful, and realistic improvement over the life of the facility, using the NextGeneration Core score as a baseline.

OR

(iii) NextGeneration Benchmark ('Top 25' housebuilder as determined by NextGeneration, or any voluntary participants)

- Client works with JLL as the secretariat to the NextGeneration Executive Committee and receive a score against the NextGeneration Benchmark (see Appendix C)
- Client works with the Group to set an ambitious, meaningful, and realistic improvement over the life of the facility, using the full Benchmark score as a baseline[30].

[29] Page 4 here: **LMA's guide on the application of SLLPs in the real estate sector**

[30] To keep consistency of methodology, should the benchmark be updated during the life of the facility (as this is reviewed on a three-yearly basis); there is the option of (i) maintaining the original baseline methodology or (ii) re-baselining to the new methodology as needed. The appropriate approach will be agreed on a case-by-case basis in discussions with the client.

2.2.2 Calibration of Sustainability Performance Targets (SPTs)

a) Client's own approved KPIs

All SPTs set by the client will be reviewed by GAEF, where they are reviewed against the SLLPs taking into account some or all of the below factors:

- How the SPTs go beyond the 'business as usual' scenario, i.e., the SPTs should be ambitious, meaningful, realistic;
- Objective and valid reference point for the SPT, e.g., using science-based scenarios such as the Science Based Target initiative), "Paris" alignment[31], or some other official pathway;
- A clear roadmap as to how the business will achieve SPTs e.g., by describing its ESG strategy, supporting ESG governance and investments, and its operating strategy, i.e., 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 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.

b) NextGeneration Core

This standard was created through collaboration between the Group and JLL and subsequently approved by the NextGeneration Executive Committee. The standard was developed through a combination of surveys, bi-lateral interviews and guided workshops that were held with 25 UK housebuilders of varying sizes. These housebuilders represent a cross section of the entire market to assess the relevant criteria, from SME housebuilders to the top 25 (by turnover and number of units) housebuilder firms. Industry research and client feedback provided a market view which led to the determination of which metrics and targets were deemed ambitious yet achievable in the mid-market sized housebuilder market.

NextGeneration Core takes into consideration a broad range of identified metrics to work out a client's 'score.' When providing SLLs to a client, the Group together with the client, will determine an ambitious, meaningful, and realistic improvement of that score to form one of the SLL's SPTs. This will be time-bound and aligned with the life of the facility. The scale of the improvement will be considered on a case-by-case basis and will be reviewed and considered by GAEF to ensure alignment with the SLLPs.

[31] Paris Aligned Investment Initiative – IIGCC

2.2.2 Calibration of Sustainability Performance Targets (SPTs)

c) NextGeneration Benchmark

The NextGeneration Benchmark is the annual sustainability benchmark for the UK's largest housebuilders. In addition, any smaller UK housebuilders that feature outside the top 25 but are ambitious and more advanced on their sustainability journey are welcome to join the NextGeneration Benchmark as members. It is made up of over 60 criteria, across 15 sections[32]. These focus areas are weighted based on their overall impact in terms of industry best practice and future trends. Energy & Carbon currently forms the highest weighted section of the benchmark. The criteria are evaluated and updated on a three-year rolling period to ensure that the benchmark remains in line with market standards and the Benchmark results are published annually, spotlighting housebuilder performance on an absolute and relative basis.

Like NextGeneration Core, the NextGeneration Benchmark takes into consideration a broad range of identified metrics in order to work out a client's 'score.' When providing SLLs to a client, the Group and client will agree an ambitious, meaningful, and realistic improvement of that benchmark score to form one of the SLL's SPTs. This will be time-bound and aligned with the life of the facility. The scale of the improvement will be considered on a case-by-case basis and will be reviewed and considered by GAEF to ensure alignment with the SLLPs.

[32] Detail on these focus areas can be found here: https://nextgeneration-initiative.co.uk/

2.2.3 Loan Characteristics

The net proceeds from the client's SLL will likely be used for general corporate purposes. Under the relevant loan agreement, the applicable interest rate will be reduced where the client's KPIs meet the pre-determined SPTs. The failure of the client to satisfy one or several of the chosen SPTs could trigger an increase in the applicable interest rate. The details of any financial margin premium payable pursuant in the event of one or more missed targets will be set out in the loan document that the client will enter into with the Group when completing the transaction.

2.2.4 Reporting

Client Reporting

The client will be primarily responsible for reporting on the KPIs agreed under this Framework. These will be recorded in the loan documentation and reference the underlying data and assumptions used to calculate the KPI.

For a client using its own KPIs, reporting is required to feature the following (usually as part of the usual loan compliance reporting):

- Demonstration of achievement of the SPTs along with the External Reviewer's assessment of the loan and related procedures outlining:
  - o The selected KPIs, including the baseline where relevant
  - o The performance against the SPT and the related impact, and timing of such impact, on a financial instrument performance
  - o Any relevant information enabling the Group to monitor the progress of the KPI
- Information may also include when feasible and possible:
  - o Illustration of the positive sustainability impacts of the performance improvement (qualitative or quantitative), see section 2.2.5 for further detail; and/or
  - o Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI 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 a client's integrated annual report or sustainability report.

For a client using NextGeneration Core or NextGeneration Benchmark, their reports are required to feature the following (usually as part of the usual loan compliance reporting):

- Detail on the selected SPT (improvement in their Benchmark score), along with NextGeneration's assessment of their baseline.
- Performance against the SPT and the related impact, and timing of such impact, on a financial instrument performance.
- Any relevant information enabling the Group to monitor the progress of the KPI.
- Information may also include when feasible and possible:
  - o Illustration of the positive sustainability impacts of the performance improvement (qualitative or quantitative), see section 2.2.5 for further detail; and/ or
  - o Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant.

2.2.5 Verification

The Group requires that each client must obtain independent and external verification of the client's performance against the SPT for each KPI at least once a year. This will usually take the form of a sustainability compliance certificate being provided to the Bank 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. This should be provided at least annually and within the agreed time frames (as noted within the facility letter).

It is recommended that the verification of the performance against the SPTs should be made publicly available where appropriate. As opposed to any pre-signing external review such as a Second Party Opinion[33], the post-signing verification, is a necessary element of the SLLPs. Once reporting has been completed and external review has taken place, the Group will evaluate the client's performance against the SPTs and KPIs based on the information available.

2.3 External Review

DNV has been appointed to confirm the alignment of the Framework to the GLPs[34] and SLLPs[35], as published by the Loan Market Association by way of a Second Party Opinion (SPO). A link to their **Second Party Opinion is available here**.

[33] The Group has taken the view that this will not be necessary in all scenarios covered by this Framework given that the framework itself is subject to a Second Party Opinion and has been set out in a manner compliant with the SLLPs.

[34] As last updated in February 2021: **LMA Green Loan Principles**

[35] As last updated here in March 2022: **LMA Sustainability-Linked Loan Principles**

Appendices

Appendices

a) NextGeneration Project

NextGeneration Project is a project specific sustainability assessment. It is based upon the criteria of the NextGeneration Benchmark but contains 12 project specific criteria making it more accessible than the full benchmark and relevant to a singular project. Housebuilders can choose to target different levels of award from Bronze to Gold.

To be eligible under the Group's criteria, qualifying green projects must meet, as a minimum, a Bronze Level award but it is at the client's discretion which level they choose to operate at.

More information on NextGeneration Project can be found here.

b) NextGeneration Core

NextGeneration Core is an intermediate corporate sustainability benchmark for small to mid-size homebuilders to measure their sustainability against best practice. It is based upon the criteria of the NextGeneration Benchmark but contains 14 core criteria making it more accessible than the full benchmark.

More information on NextGeneration Core can be found here.

c) NextGeneration Benchmark

The NextGeneration Benchmark criteria cover 15 focus areas. These focus areas are weighted based on their overall impact in terms of industry best practice and future trends. Energy & Carbon currently forms the highest weighted section of the benchmark. The criteria are evaluated and updated on a three-year rolling period to ensure that the benchmark remains relevant to the ever-evolving sustainability sector, while enabling housebuilders to benchmark their progress over time.

More information about the NextGeneration Benchmark can be found here.

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