

# L&Q SUSTAINABILITY FINANCE FRAMEWORK

## DNV ELIGIBILITY ASSESSMENT

### Scope and objectives

L&Q Group (hereafter referred to as “L&Q” or “The Group”) is a not-for-profit registered provider of social housing founded in 1963, housing around 250,000 people in 105,000 homes across London and the South East, the Midlands, and the North West. As a leading housing association and developer, building new homes is core to The Group’s vision. L&Q complies with the UK’s National Planning Policy Framework (2020) which is designed to balance the social needs for affordable housing, with safeguarding the environment from the impacts of its developments and to operate transparently and ethically.

To ensure L&Q remains fully committed to tackling the housing crisis and that it delivers on The Group’s ESG agenda, four long-term targets have been set:

- Enable sustainable economic and housing growth;
- Be a net-zero carbon business by 2050;
- Collaborate with others to achieve significant improvement in social impact and social value; and
- Safeguard the environment.

In terms of the environment, L&Q aims to align with the EU Taxonomy and has set a stretching long-term target to be Net Zero by 2050. During our assessment, L&Q detailed in the short term it will set absolute Scope 1 and 2 emission reduction targets that will align with the Science-Based Target Initiative (“SBTi”) methodology, and a well-below 2-degree scenario, by 2024. These targets will be independently reviewed by a third party. The Group also endeavours to implement the recommendations of the ‘Building a Safer Future’ and the ‘Future buildings Standard’, to ensure that the construction of any new build home, contributes to a low-carbon future. The Group’s social purpose is to deliver wider benefits to the society putting residents at the heart of decision-making, above and beyond the provision of social housing, as defined by the ‘Housing and Regeneration Act 2008’<sup>1</sup>. In terms of social projects, L&Q has committed to helping solve the UK housing crisis and contribute towards the UK government’s target of building 300,000 homes per year, by handing over 30,000 homes as part of its medium-term target.

L&Q has developed a Sustainability Finance Framework 2021 (the “Framework”) to support the delivery of the Group’s corporate strategy (‘Future Shape 2021’), which is underpinned by five key objectives:

- The services L&Q provides;
- The homes that L&Q builds;
- The people who make up the L&Q team;
- L&Q’s approach to governance and assurance; and

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<sup>1</sup> Note: L&Q is regulated by the Regulator of Social Housing and was awarded the highest ratings for ‘governance and viability’ (G1/V1).

- The finance L&Q manages and invests.

The Framework enables:

- Issuance of ‘Use of Proceeds’ bonds and/or loans to finance, or refinance, in whole or in part, eligible **Green, Social and/or Sustainability projects** (“Eligible Green and Social Projects”) in the Eligible Green and Social Categories (collectively referred to as, “Use of Proceeds Instruments”); and
- Issuance of **Sustainability-Linked Bonds (including public bonds or private placements<sup>2</sup>) and Loans**, and any other sustainability-linked financing instruments (collectively referred to as, “Sustainability-Linked Instruments”).

Further details are outlined in the “Findings and DNV’s opinion” section.

DNV Business Assurance Services UK Limited (“DNV”) has been commissioned by L&Q to provide an eligibility assessment of their Sustainability Finance Framework (the “Framework”), under which it can finance and support activities with a general purpose of achieving social prosperity by tackling the housing crisis and supporting climate change mitigation efforts. L&Q will also be able to issue Sustainability-Linked instruments, the proceeds of which can be used for general corporate purposes. Our objective has been to provide an assessment on whether the Framework meets the criteria established within:

International Capital Market Association (ICMA)	Loan Market Association (LMA)
Green Bond Principles 2021 (GBP)	Green Loan Principles 2021 (GLP)
Social Bond Principles 2021 (SBP)	Social Loan Principles 2021 (SLP)
Sustainability Bond Guidelines 2021 (SBG)	Sustainability-Linked Loan Principles 2021 (SLLP)
Sustainability-Linked Bond Principles 2021 (SLBP)	

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 bonds or loans issued under the company’s Framework, the value of any investments, or the long-term environmental and/or societal 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.

<sup>2</sup> Under this Framework, L&Q will be able to issue various funding instruments including but not limited to Green, Social, Sustainability and Sustainability Linked Bonds, private placements, floating rate notes, commercial paper, bank facilities and leases.

## Responsibilities of the Management of L&Q and DNV

The management of L&Q 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 L&Q management and other interested stakeholders in 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 L&Q. 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 L&Q'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 GBP, SBP, SBG, GLP and SLP, as well as the SLBP and the SLLP to create an L&Q-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 Bonds and Loans	Sustainability-Linked Bonds and Loans
<b>Principle One:</b>	<p><b>Use of Proceeds.</b></p> <p>The Use of Proceeds criteria is guided by the requirement that an issuer of funding instruments under the Framework must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental &amp; social benefits</p>	<p><b>Selection of Key Performance Indicators (KPIs).</b></p> <p>The issuer of sustainability-linked bonds and/or loans should clearly communicate its overall sustainability objectives, as set out in its sustainability strategy, and how these relate to its proposed Sustainability Performance Targets (SPTs). The KPI should be relevant, core and material to the issuer’s core sustainability and business strategy, measurable or quantifiable on a consistent methodological basis, externally verifiable; and able to be benchmarked externally.</p>
<b>Principle Two:</b>	<p><b>Process for Project Evaluation and Selection.</b></p> <p>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 &amp; Sustainability instruments, and outline any impact objectives it will consider.</p>	<p><b>Calibration of Sustainability Performance Targets (SPTs).</b></p> <p>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.</p>
<b>Principle Three:</b>	<p><b>Management of Proceeds.</b></p> <p>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.</p>	<p><b>Financial Characteristics.</b></p> <p>The bonds and/or loans will need to include a financial and/or structural impact depending on whether the selected KPIs reach (or not) the predefined SPTs. The bond and/or loan documentation needs to require the definitions of the KPI(s) and SPT(s) and the potential variation of the SLB’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.</p>

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<b>Principle Four:</b>	<p><b>Reporting.</b></p> <p>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.</p>	<p><b>Reporting.</b></p> <p>Issuers 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 bond's financial and/or structural characteristics, with such information to be provided to investors participating in the bond at least once per annum.</p>
<b>Principle Five:</b>	N/A	<p><b>Verification (Post-issuance).</b></p> <p>The Issuer 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.</p>

## Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by L&Q in good faith. We have 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 an L&Q-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 documentary evidence provided by L&Q on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology.
- Discussions with L&Q management, as well as a review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of 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 Bonds and Loans	Sustainability-Linked Bonds and Loans
<p><b>Principle One:</b></p>	<p><b>Use of Proceeds:</b></p> <p>L&amp;Q intends to use this Framework to issue green, social or sustainability bonds, loans and/or other debt instruments referred to as “Use of Proceeds Instruments”, to finance or refinance Eligible Green and/or Social Projects. The Framework defines Eligible Green and/or Social Projects as those that fall into one or more of the following categories that are in line with the relevant GBP, SBP, SBG, GLP and SLP:</p> <p><b>Eligible Green Categories:</b></p> <ul style="list-style-type: none"> <li>• Green buildings</li> <li>• Renewable energy</li> <li>• Energy efficiency</li> <li>• Clean transportation</li> <li>• Pollution prevention and control</li> <li>• Sustainable water and wastewater management</li> <li>• Circular economy adapted products, production technologies and processes and/or certified eco-efficient products</li> <li>• Terrestrial and aquatic biodiversity conservation</li> </ul> <p><b>Eligible Social Categories:</b></p> <ul style="list-style-type: none"> <li>• Affordable housing</li> <li>• Access to essential services</li> <li>• Employment generation</li> <li>• Socioeconomic advancement and empowerment</li> </ul> <p>For Eligible Social categories, L&amp;Q has also identified appropriate target populations. DNV can confirm that the target populations identified within L&amp;Q’s Framework fall into the ICMA/LMA categories (see Schedule 1).</p> <p>For Eligible Green Project categories, L&amp;Q has also specified suitable eligibility criteria such as Green Building certifications representing top performance within the local building stock (see Schedule 1). L&amp;Q has also included criteria to reduce the embodied carbon within its construction activity and its projects, which intend on reducing overall absolute emissions (e.g., renewable energy / projects to reduce transportation emissions).</p> <p>DNV concludes that the Green categories as described above, and in Schedule 1, will positively contribute to a low carbon transition and help to establish climate change resilient spaces.</p>	<p><b>Selection of Key Performance Indicators (KPIs):</b></p> <p>Within the Framework, L&amp;Q has identified four material KPIs to the business that are core to addressing relevant ESG challenges and risks that are within management control. The KPIs commit the business to future sustainability improvements within predefined timelines, as outlined below, and are reviewed at least annually by L&amp;Q’s ESG Financing Panel.</p> <p>The KPIs summarised are also in alignment with the UN Sustainable Development Goals (SDGs), industry standards, or applicable UK/EU environmental objectives:</p> <p><b>KPI 1 – Operational carbon emission reductions (Scope 1 and 2):</b></p> <ul style="list-style-type: none"> <li>• Aligned with the UK Government energy and carbon reporting (SECR) methodology, and the GHG Protocol Corporate Standard</li> <li>• SDG alignment - Goal #7 (Affordable and Clean Energy) and Goal #13 (Climate Action)</li> <li>• Commitment to the UK Net Zero roadmap</li> <li>• Paris-aligned and set in accordance with the SBTi methodology</li> </ul> <p><b>KPI 2 - Energy Efficiency of Residential Homes (Scope 3 impact)</b></p> <ul style="list-style-type: none"> <li>• Aligns with the ‘Standard Assessment procedures’ (SAP) methodology - theoretical energy performance of a building – long term goal to achieve an EPC rating of A</li> <li>• SDG alignment - Goal #7 (Affordable and Clean Energy) and Goal #13 (Climate Action)</li> </ul> <p><b>KPI 3: Affordable homes</b></p> <ul style="list-style-type: none"> <li>• Aligned with The Clean Growth Strategy (2017) aiming to provide “as many homes as possible” and “where practical, cost-effective and affordable”</li> <li>• The % of new social Homes built aligns with the definition by the Housing &amp; Regeneration Act (2008)</li> <li>• SDG alignment - Goal #1 (No Poverty) and Goal #11 (Sustainable Cities &amp; Communities)</li> </ul> <p><b>KPI 4: Community Investment</b></p> <ul style="list-style-type: none"> <li>• Committed to generating a positive, social impact on the communities where residents live, with investment directed to communities based on ‘social need’, in</li> </ul>

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	<p>L&amp;Q has also aligned its Eligible Categories with the Sustainability Reporting Standard for Social Housing, a voluntary disclosure framework that provides guidance to UK housing providers for reporting on their ESG performance in a transparent, consistent and comparable way (published in November 2020).</p> <p>L&amp;Q has mapped the eligible project categories against the relevant UN SDGs (see Schedule 1). DNV concludes that these are appropriately aligned to the UN SDGs.</p> <p>Where re-financing is expected L&amp;Q has determined a look-back period of 36 months prior to the issuance of any financial instrument under the Framework.</p> <p>DNV can conclude that the Green and Social Eligible Projects as described within the Framework fall into the defined categories of the GBP, SBP, SBG, GLP and SLP and will deliver clear environmental and social benefits. We can also confirm that the eligible projects categories outlined in the Framework are consistent with the categories outlined in the GBP, SBP, SBG, GLP and SLP.</p>	<p>accordance with the UK’s National Planning Policy Framework).</p> <ul style="list-style-type: none"> <li>• SDG alignment - Goal #10 (Reduced inequality) and Goal #11 (Sustainable Cities &amp; Communities)</li> </ul> <p>DNV can confirm that the KPIs selected were highlighted as relevant, core and material to L&amp;Q’s overall business, and of high strategic significance to L&amp;Q’s current and/or future operations. The KPIs have been confirmed as material by L&amp;Q’s ESG Financing Panel.</p> <p>In summary, the <i>carbon intensity of electricity generated</i> is deemed material as it is a key measure of L&amp;Q’s performance towards Net Zero by 2050, at the latest. As a provider of social housing, the <i>energy performance</i> of L&amp;Q’s portfolio is within L&amp;Q’s control, and core to its ESG Strategy and the UK Governments objectives to improve “<i>the energy efficiency of UK housing stock</i>”. Operating as a housing association focused on placemaking and providing affordable homes to people, committing to helping <i>solve the UK housing crisis</i> by building new and affordable homes built in England for social housing purposes, is in L&amp;Q’s influence. In addition, <i>generating positive social impacts in communities</i> where residents live is also core to L&amp;Q’s ambition, achievable by contributing investments into social projects through the L&amp;Q Foundation, and by aligning to Target 11 of the SDGs.</p> <p>Based on the work undertaken, DNV can confirm that the KPIs are relevant, core and material to the Group’s overarching corporate strategy. The rationale and process for KPI selection, as well as the definition, measurability and verifiability, are clearly defined and presented within the Framework. We can confirm that they are in alignment with the SLBP and SLLP.</p> <p>A detailed analysis of DNV’s assessment of the KPIs is outlined in Schedule 4, Section 1 of this SPO.</p>
<p><b>Principle Two:</b></p>	<p><b>Process for Project Evaluation and Selection:</b></p> <p>DNV can confirm L&amp;Q has specified the eligibility criteria for each type of Green and Social project in the Use of Proceeds table of its Framework.</p> <p>L&amp;Q has established an ‘ESG Financing Panel’ which has overall responsibility for:</p> <ul style="list-style-type: none"> <li>• the documentation of the evaluation and selection process in order to facilitate external verification;</li> <li>• the selection and approval of Eligible Projects;</li> </ul>	<p><b>Calibration of Sustainability Performance Targets (SPTs):</b></p> <p>Aligned with the four KPIs outlined above, L&amp;Q has set the following SPTs:</p> <p><b>SPT 1: Reductions in Scope 1 &amp; 2 Green House Gas (GHG) emissions (scope 1 and 2) generated:</b></p> <p>Baseline: 33 ktCO<sub>2</sub>e in 2019/20.</p> <ul style="list-style-type: none"> <li>• <u>Short-term</u>: 20% by 31 March 2024, with respect to the Baseline (SECR methodology).</li> </ul>

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	<ul style="list-style-type: none"> <li>the investment of net proceeds received from the issuance of Use of Proceeds Instruments, and</li> <li>the tracking and reporting of net proceeds.</li> </ul> <p>The ESG Financing Panel intends to meet at least on a semi-annual basis.</p> <p>DNV concludes that there is a robust decision-making process behind the approval of any Eligible Categories and Projects taking into account a comprehensive set of parameters, as outlined in the Framework.</p> <p>DNV has reviewed evidence showing that this process will be supported by a stringent governance framework, L&amp;Q’s “Future Shape” document, its five-year corporate strategy running from 2021 to 2026, in which sustainability commitments are embedded. L&amp;Q will also include exclusion criteria and through their risk management system, to identify and manage potential material ESG risks associated with any of the projects.</p> <p>This strategy is shaped around five pillars: Service, Homes, People, Governance and Assurance. L&amp;Q has formed five corresponding working groups which contribute to the Future Shape strategy, alongside multiple boards and committees overseeing the process. In addition, L&amp;Q also reiterates in its Framework that, through its status as a not-for-profit charitable entity, it is committed to reinvesting all of its profits into the implementation of social and economic programmes and services, which are delivered by the L&amp;Q Foundation (founded in 2011) and L&amp;Q Living.</p> <p>DNV concludes that the activities to be financed by future issuances will be appropriately evaluated, selected, managed, and reported on as outlined within L&amp;Q’s Framework, and that they meet the requirements under the GBP, SBP, SBG, GLP and SLP.</p>	<ul style="list-style-type: none"> <li><u>Medium-term</u> an SBT aligned with a well-below 2-degree scenario by 2030 (pending calculation).</li> <li><u>Long-term</u>: Net Zero by 2050.</li> <li>CO<sub>2</sub> reductions are measured in tCO<sub>2</sub>e.</li> </ul> <p>DNV notes SPT 1 Medium- and Long-term targets would need to be further defined in the future.</p> <p><b>SPT 2: Improvements in downstream emissions by improving energy usage in homes, based on SAP measure:</b></p> <p>Baseline: Average calculated SAP score of 71.5 as of 31 March 2021.</p> <ul style="list-style-type: none"> <li><u>Short-term</u>: Achieve an average SAP score of 72 or above (corresponds to a low EPC rating of C) by 31 March 2024, based on an SAP score of 71.5 in 2021.</li> <li><u>Medium-term</u>: Achieve an average SAP score of 74.5 or above (corresponds to a mid-point EPC C band) by 2030.</li> <li><u>Long-term</u>: Achieve an average SAP score of 92 or above (corresponds to an EPC rating of A) by 2050.</li> <li>Improvements in energy efficiency are measured by SAP scores (corresponding to EPC ratings).</li> </ul> <p><b>SPT 3: Number of new homes built, acquired and let, with at least 50% of these provided as “affordable” housing:</b></p> <p>Baseline: 2,439 homes built in 2019/20, of which 49% were for affordable housing. 2,874 homes built in 2018/19 and 2,453 in 2017/18.</p> <ul style="list-style-type: none"> <li><u>Short-term</u>: 8,000 new homes built by 31 March 2024, compared to the baseline in 2019/20 where out of the 2,439 homes built only 49% of homes were affordable.</li> <li><u>Medium-term</u>: 30,000 new homes built by 2030, with at least 50% made “affordable”.</li> <li><u>Long-term</u>: 100,000 new homes built or enabled by 2050, with a least 50% made “affordable”.</li> <li>Number of new homes built, acquired, and let, with at least 50% for “affordable housing purposes”, measured as a percentage.</li> </ul> <p><b>SPT 4: Funding invested in local community organisations to generate positive social impact on the communities where our residents live:</b></p> <p>Baseline: £2.5M invested in 2019/20. £2.4M invested in 2018/19 and £2.0M invested in 2017/18.</p> <ul style="list-style-type: none"> <li><u>Short-term</u>: £10M invested in communities by identified social need and measurable</li> </ul>



	Use of Proceeds Bonds and Loans	Sustainability-Linked Bonds and Loans
		<p>impact by 2024, compared to £2.5M invested in 2019/20.</p> <ul style="list-style-type: none"> <li>• <u>Medium-term</u>: £40M invested in communities by identified social need and measurable impact, by 2030. This represents a 140% increase in the average investment in the three years from 2018-2020.</li> <li>• <u>Long-term</u>: £170M invested in communities driven by identified social needs and measurable impact by 2050.</li> <li>• Funding invested measured in £.</li> </ul> <p>SPT 1 is aligned with L&amp;Q’s long-term target to be net-zero by 2050 and to reduce its own operational carbon emissions in line with science. This target is set to be SBTi approved by the year 2024. SPT 2 supports the Group’s long-term objective to reduce downstream emissions in housing by improving energy efficiency ratings. SPT 3 supports the UK’s commitment to addressing the housing crisis in the UK through the provision of “affordable housing” (i.e., building 300,000 homes per year). L&amp;Q has a long-term target to have contributed 100,000 new homes (built or enabled) by 2050. Last, SPT 4 supports L&amp;Q’s commitment to implement social and economic programmes and services in communities that will have a measurable impact.</p> <p>From the evidence reviewed, DNV can confirm that the baseline dates set for all KPIs may be recalculated by L&amp;Q, if there are structural changes that would significantly impact the organisation’s base year figures, as a result of changes in, for instance, the SECR methodology, SAP ratings, social needs of communities.</p> <p>SPT 1 is aligned with science and seeks to be approved by the SBTi by 2024, it also aligns with the UK Governments ‘Future Homes Standard’ in the long-term to deliver on Net-Zero. SPT 2 also aligns with the UK Governments ‘Future Homes’ standard set for achieving energy efficiency ratings for homes, as part of the UK Government’s attempt to lower energy consumption and bills. Both SPT 1 and SPT 2 align with the UN SDGs #7 and #13. SPT 3 attempts to fill the gap of providing affordable housing, given there is no recognised official measure of housing need in England. This SPT aligns with UN SDG #1 and #11. Finally, SPT 4 focuses on delivering investment to communities, where there is a clear social need in place.</p> <p>All SPTs have clear calculation methodologies, have a defined baseline, and have a defined target year(s) set, as outlined above. DNV can also confirm that it was not always possible to make comparisons to peers or to industry standards, but based on the information provided to DNV, we can confirm that the short-medium-long term targets</p>

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		<p>set are either in line with the relevant industry goals or leading.</p> <p>L&amp;Q have also outlined within the Framework factors that support the achievement of the SPTs as well as any associated risk.</p> <p>Based on the work undertaken, DNV can confirm that all SPTs represent a material improvement in the respective KPIs; are beyond a "Business as Usual" trajectory where comparably possible or in line with recognised industry targets; consistent with L&amp;Q's overall ESG and Corporate Strategy; set on a predefined timeline; where possible refers to science or industry best practices; and that they are in line with the SLBP and SLLP. A detailed analysis of DNV's assessment of the SPTs is outlined in Schedule 4, Section 2 of this SPO.</p>
<p><b>Principle Three:</b></p>	<p><b>Management of Proceeds:</b></p> <p>DNV can confirm that L&amp;Q has committed to ensuring that the amounts represented by the Eligible Projects will exceed, or at least be equal to, the amount of finance raised under the Framework. L&amp;Q intends to use a portfolio approach and has created a dedicated register, the 'Sustainability Finance Projects Register', to track disbursements towards Eligible Projects. L&amp;Q also intends to demonstrate transparency by holding the net proceeds in segregated accounts until the amount can be allocated to the Eligible Project Portfolio.</p> <p>We can also confirm that L&amp;Q has made provisions to hold unallocated net proceeds in accordance with the parameters of L&amp;Q's Treasury Policy, on a best-endeavours basis, be invested on a short-term basis in green or sustainable assets. The responsibility of tracking and monitoring the Use of Proceeds from the Eligible Green and/or Social Projects will lie with the ESG Financing Panel.</p> <p>DNV has reviewed supporting documentation evidencing that L&amp;Q has a robust governance structure in place, and that future Use of Proceeds Instruments will be managed in accordance with L&amp;Q's Governance and Assurance approach outlined in its 'Future Shape' corporate strategy.</p> <p>We conclude that the process in place for the management of proceeds, as outlined within the Framework, meets the requirements of the GBP, SBP, SBG, GLP and SLP.</p>	<p><b>Financial Characteristics:</b></p> <p>DNV can confirm that L&amp;Q can use one, all or a selection of KPIs and/or SPTs in a relevant Sustainability-Linked instrument. The Sustainability-Linked Instruments include explicit "Structural incentives" that are non-binary in nature when multiple targets are in place. Any structural incentive will be applied for any interest period, commencing on or after the interest payment date immediately following the Notification Date (15 days after publication, or no later than 90 days).</p> <p>Where a structural incentive results in an interest saving, L&amp;Q will directly attribute that saving to the L&amp;Q Foundation (a not-for-profit charitable entity). The saving will be used to support the implementation of social and economic programmes and services in local communities. This aligns with L&amp;Q's vision – <i>"No-one should be denied the opportunity to achieve their full potential because of where they live"</i>.</p> <p>DNV has reviewed the Framework and supporting evidence and can confirm: the failure by L&amp;Q to satisfy the SPTs on a set Target Observation Date will trigger a pre-determined coupon adjustment (step-up or step-down), or financial penalty (payment of a premium at maturity) as applicable, that is payable by L&amp;Q to Noteholders in any SLB. Any variation of a Margin in any SLL will be documented in the appropriate loan agreement, accordingly.</p> <p>DNV can confirm L&amp;Q's commitment to the Bond and Loan characteristics is in line with the requirements of the SLBP and SLLP.</p>

	Use of Proceeds Bonds and Loans	Sustainability-Linked Bonds and Loans
<p><b>Principle Four:</b></p>	<p><b>Reporting:</b></p> <p>L&amp;Q has committed to providing information annually to investors on the allocation and impact of Eligible Green and/or Social Projects to be financed under the Framework, until full allocation.</p> <p>DNV can confirm that allocation information will be made available through a dedicated 'Sustainability Finance Report'. The report will provide insights into the total amount of the investments and expenditures in each Eligible Category including a description of Eligible Projects financed and material variations; the balance of unallocated cash and/or cash equivalent; and the share of financing versus refinancing for each Eligible Category.</p> <p>DNV can also confirm L&amp;Q has committed to measuring the impact of the proceeds from future issuances through a range of potential KPIs listed in the Framework and detailed in Schedule 2 and where possible will endeavour to align with recognised industry standards such as the Sustainability Reporting Standard for Social Housing and ICMA impact reporting guidance. The impact report will be published in L&amp;Q's annual Sustainability Report.</p> <p>DNV concludes that L&amp;Q has committed to producing appropriate and transparent reporting on the environmental and/or social impacts of future issuances within the Framework that meet the requirements of the relevant GBP, SBP, SBG, GLP and SLP that L&amp;Q's framework complies with.</p>	<p><b>Reporting:</b></p> <p>L&amp;Q has committed to reporting annual progress against the KPIs as part of its annual report/non-financial statement or Sustainability Report, which is verified externally and available on L&amp;Q's website. The reporting may include:</p> <ul style="list-style-type: none"> <li>• Up-to-date information on the performance of the selected KPI, including the baseline where relevant</li> <li>• A verification assurance report relative to the KPI outlining the performance against the SPT, and/or</li> <li>• Any relevant information enabling investors to monitor the progress of the KPI and the SPT</li> </ul> <p>Information may also include, when feasible and possible:</p> <ul style="list-style-type: none"> <li>• A qualitative or quantitative explanation of the contribution of the main factors behind the evolution of the KPI or SPT on an annual basis</li> <li>• Illustration of the positive sustainability impact of the performance improvement, and/or</li> <li>• Any re-assessments of KPIs and/or restatement of the SPT and/or pro forma adjustments of baselines or KPI scope, if relevant.</li> </ul> <p>DNV can confirm L&amp;Q's commitment to reporting is in line with the requirements of the SLBP and SLLP.</p>
<p><b>Principle Five:</b></p>	<p>N/A</p>	<p><b>Verification (Post-issuance):</b></p> <p>L&amp;Q commits to reporting all KPIs on an annual basis as part of L&amp;Q's annual Sustainability Report, which is verified by external auditors and available on L&amp;Q's website.</p> <p>A Verification Statement, or an appropriate summary, confirming whether the performance of the KPI meets the relevant SPT will also be published on L&amp;Q's website, and in writing to the Principal Paying Agent and Noteholders, following a target observation date.</p> <p>DNV can confirm L&amp;Q's commitment to verification is in line with the requirements within the SLBP and SLLP.</p>

On the basis of the information provided by The Group, and the work undertaken, it is DNV's opinion that the L&Q Sustainability Finance Framework meets the criteria established in the Protocol and that it is aligned with the stated definitions of: Green bonds within the Green Bond Principles (GBP) 2021; Social Bonds within the Social Bond Principles (SBP) 2021; Sustainability Bonds within the Sustainability Bond Guidelines (SBG) 2021; Green Loans - Green Loan Principles (GLP) 2021; and Social Loans within the Social Loan Principles (SLP) 2021.

It is also aligned with the stated definition of Sustainability-Linked Bonds within the Sustainability Linked Bond Principles (SLB) 2021, which is to "*incentivise the issuer's achievement of material, quantitative, pre-determined, ambitious, regularly monitored and externally verified sustainability (ESG) objectives through KPIs and SPTs*", thereby providing "*an investment opportunity with transparent sustainability credentials*". In addition, the Framework is aligned to the stated definition of Sustainability-Linked Loans within the Sustainability-Linked Loan (SLL) Principles 2021, which is to "*facilitate and support environmentally and socially sustainable economic activity and growth*", thereby "*promoting sustainable development more generally*".

**for DNV Business Assurance Services UK Limited**

London, 3 September 2021

A handwritten signature in black ink, appearing to read "R Strutt".

**Richard Strutt**

Senior Consultant and Project Manager  
DNV – Business Assurance

A handwritten signature in black ink, appearing to read "Souvik Ghosh".

**Souvik Ghosh**









Principal Consultant and Reviewer  
DNV – Business Assurance








**About DNV**





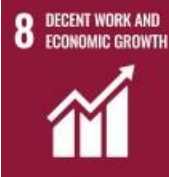



Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions 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 BONDS AND LOANS

ICMA Green Project category	Description of activities (non-exhaustive list)	UN SDGs
<b>Green buildings</b>	<p>Development of green residential buildings which meet at least one of the following regional, national or internationally recognised standards or certifications:</p> <ul style="list-style-type: none"> <li>• Home Quality Mark of 3 stars or above.</li> <li>• BREEAM certification of 'Very Good' or better.</li> <li>• Energy performance certificate (EPC) rating in band B or above.</li> </ul>	 
<b>Renewable energy</b>	<p>Installation of renewable energy systems and procurement of energy from renewable sources operating at lifecycle emissions of less than 100gCO2/kWh.</p>	 
<b>Energy efficiency</b>	<p>Installation of energy-saving appliances, technologies and storage solutions in new and existing homes and improvement in energy-efficiency of communal heating systems, that leads to:</p> <ul style="list-style-type: none"> <li>• At least a 30% improvement in energy efficiency.</li> <li>• Or an uplift in EPC rating by at least two bands.</li> </ul> <p>Delivery of energy savings assessments in residential homes and engagement with residents to reduce energy usage through behavioural change.</p>	 
<b>Clean transportation</b>	<p>Development and promotion of clean transportation access for employees and residents by using low emissions fleet vehicles with direct tailpipe emissions of below 50gCO2/km until 2025, and zero emissions thereafter, and installing electric vehicle charging points and cycling infrastructure.</p>	 



<p><b>Pollution prevention and control</b></p>	<p>Reduction of air, land and water pollution by reducing the amount of waste produced on our construction sites, at our offices and from our residents' homes, increasing the proportion of it that is recycled and reducing the proportion sent to landfill sites. This would include investment in technologies to capture and monitor data and equipment or infrastructure to reduce waste generated and improve recycling rates.</p>	 
<p><b>Sustainable water and wastewater management</b></p>	<p>Reduction of water consumption on L&amp;Q construction sites and in L&amp;Q properties through water savings assessments, integration of water-saving technologies and engagement with residents to promote behavioural change.</p>	
<p><b>Circular economy adapted products, production technologies and processes and/or certified eco-efficient products</b></p>	<p>Introduction of environmentally sustainable products, production technologies and processes to improve the efficiency of building new homes, e.g. investment in equipment or facilities to enable off-site manufacture of prefabricated and standardised components/modules.</p>	 
<p><b>Terrestrial and aquatic biodiversity conservation</b></p>	<p>Preservation and promotion of the environmental ecosystem surrounding L&amp;Q properties by investing in public realm features that promote better air quality, healthy biodiversity, and access to green spaces.</p>	 

ICMA Social category	Target Population	Description of activities	UN SDGs	
<b>Affordable housing</b>	People who are unemployed, underserved, marginalised or living below the poverty line	Construction or refurbishment of social and affordable housing (based on the definitions of "low-cost rental accommodation" and "low-cost homeownership accommodation" in the Housing and Regeneration Act 2008).		
<b>Access to essential services</b>	Vulnerable groups, people who are unemployed or living below the poverty line, people with disabilities	Enhancement of resident access to education, vocational training, health, wellbeing, and financial support services provided by the L&Q Foundation and L&Q Living.		
<b>Employment generation</b>	Unemployed, underserved, undereducated, marginalised populations and vulnerable youth	Delivery of programmes designed to prevent and/or alleviate unemployment, through the provision of job brokerage services, training and one-to-one support with CV writing and interview preparation.		
<b>Socioeconomic advancement and empowerment</b>	Excluded or marginalised communities, people who are underserved, people with disabilities, women and gender minorities	Supporting equitable access to and control over resources and opportunities and equitable participation and integration into market and society, including reduction of income equality, through e.g., development of internship and training programmes and procuring from and/or awarding grants to local groups, charities, SMEs, woman-owned and/or minority-owned enterprises.		

## SCHEDULE 2: DESCRIPTION OF THE KEY PERFORMANCE INDICATOR (KPI) AND SUSTAINABILITY PERFORMANCE TARGET (SPT) FOR SUSTAINABILITY LINKED BONDS AND LOANS

Key performance indicator (KPI)	Sustainability performance target (SPT)	Industry alignment, or UK/EU environmental regulation	SDG alignment
<b>Operational Carbon Emissions</b>  (Scope 1 and 2)	<p><b>Reduce Scope 1 and 2 carbon emissions generated (tCO<sub>2</sub>e):</b></p> <ul style="list-style-type: none"> <li><u>Short term</u>: 20% by 31 March 2024, with respect to the SECR baseline (33 ktCO<sub>2</sub>e, 2019/20 levels).</li> <li><u>Medium-term</u>: TBC – aligned with a well below 2-degree scenario by 2030, based on the SBT methodology.</li> <li><u>Long term</u>: Net Zero by 2050.</li> </ul>	<p>UK government SECR aligned and the GHG Protocol.</p> <p>Science-based Target Initiative (SBTi) aligned to a 2-degree pathway.</p> <p>UK Climate Change Roadmap for Net Zero aligned (by 2050).</p>	 
<b>Energy Efficiency or residential homes</b>  (Scope 3 impact)	<p><b>Improvements in downstream emissions by improving energy usage in homes, based on an SAP measure.</b></p> <p>Improvements in energy efficiency are measured by SAP scores, that correspond to EPC ratings:</p> <ul style="list-style-type: none"> <li><u>Short-term</u>: SAP score of 72 or above (corresponds to a low EPC rating of C) by 31 March 2024.</li> <li><u>Medium-term</u>: SAP score of 74.5 or above (corresponds to a medium EPC rating of C) by 2030.</li> <li><u>Long-term</u>: achieve an average SAP score of 92 or above by 2050 (corresponds with an EPC rating of A).</li> </ul> <p><i>Note: in 2021, the average SAP score was 71.5.</i></p>	<p>SAP and EPC aligned.</p>	 



<p><b>Affordable Homes</b></p>	<p><b>Number of new homes built, acquired and let (%), with at least 50% of these provided as “affordable” housing:</b></p> <ul style="list-style-type: none"> <li>• <u>Short-term</u>: 8,000 new homes built by 31 March 2024, with at least 50% made “affordable” compared to the baseline in 2019/20 (of the 2,439 homes built, where only 49% of homes were affordable.</li> <li>• <u>Medium-term</u>: 30,000 new homes built by 2030, with at least 50% made “affordable”.</li> <li>• <u>Long-term</u>: 100,000 new homes built or enabled by 2050, with at least 50% made “affordable”.</li> </ul>	<p>Housing &amp; Regeneration Act aligned</p>	
<p><b>Community Investment</b></p>	<p><b>Funding invested in local community organisations, identified by social need and measurable impact (£):</b></p> <ul style="list-style-type: none"> <li>• <u>Short term</u>: £10M invested by 2024</li> <li>• <u>Medium-term</u> £40M invested by 2030</li> <li>• <u>Long-term</u>: £170M by 2050.</li> </ul>	<p>UK National Planning Policy Framework.</p>	

## SCHEDULE 3: USE OF PROCEEDS FINANCIAL INSTRUMENTS – L&Q-SPECIFIC SUSTAINABILITY FINANCING FRAMEWORK ELIGIBILITY ASSESSMENT PROTOCOL

### 1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Types of Financing Framework	<p>The financing must fall in one of the following categories, as defined by the GBP, SBP, SBG, GLP and SLP:</p> <ul style="list-style-type: none"> <li>• Use of Proceeds Bond</li> <li>• Use of Proceeds Revenue Bond</li> <li>• Project Bond</li> <li>• Securitized Bond</li> </ul> <p>Green / Social 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.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> </ul>	<p>The Framework outlines the type of Use of Proceeds instruments expected to be issued under the Framework as various funding instruments including but not limited to Green, Social, Sustainability and Sustainability Linked Bonds, private placements, floating-rate notes, commercial paper, bank facilities and leases. The specific type of Use of Proceeds Instruments will need to be further assessed on an individual basis.</p>
1b	Green and Social Project Categories	<p>The cornerstone of a Sustainability bond/loan is the utilisation of the proceeds which should be appropriately described in the legal documentation for the security.</p>	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> </ul>	<p>L&amp;Q intends to use the proceeds from future issuances to finance the following activities:</p> <p><b>Eligible Green Categories:</b></p> <ul style="list-style-type: none"> <li>• Green buildings</li> <li>• Renewable energy</li> <li>• Energy efficiency</li> <li>• Clean transportation</li> <li>• Pollution prevention and control</li> <li>• Sustainable water and wastewater management</li> <li>• Circular economy adapted products, production technologies and processes and/or certified eco-efficient products</li> <li>• Terrestrial and aquatic biodiversity conservation</li> </ul> <p><b>Eligible Social Categories:</b></p> <ul style="list-style-type: none"> <li>• Affordable housing</li> <li>• Access to essential services</li> <li>• Employment generation</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>Socioeconomic advancement and empowerment</li> </ul> <p>Multiple target populations would benefit under each of these categories as listed in detail in Schedule 1 of this document.</p> <p>DNV confirms that these projects, and the relevant target populations, fall within the definition of Eligible Categories as outlined in the Framework and Schedule 1 of this opinion and that they are consistent with the GBP, SBP, SBG, GLP and SLP guidelines.</p> <p>We can conclude that the Framework appropriately describes the proposed utilisation of proceeds. The specificities of each issuance will need to be further assessed on an individual basis.</p>
1c	Green and Social benefits	All designated sustainability project categories should provide clear environmental and/or social benefits, which, where feasible, will be quantified or assessed by the issuer.	Evidence reviewed: <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> <li>L&amp;Q Future Shape: our five-year corporate strategy (2021-2026)</li> <li>L&amp;Q Foundation annual report (2017/18)</li> <li>Financial statements (2020)</li> <li>Social Value Report FY1920</li> <li>Social Value Report FY1819</li> <li>Sustainable Finance Framework baseline community investment figures</li> <li>L&amp;Q Foundation annual report (2017/18)</li> <li>Financial statements (2020)</li> <li>L&amp;Q Foundation (<a href="#">online</a>)</li> <li>L&amp;Q Living (<a href="#">online</a>)</li> <li>L&amp;Q Fair pay report (2019)</li> <li>L&amp;Q Foundation impact infographic</li> </ul>	<p>L&amp;Q has provided a description of the types of Eligible Green and/or Social projects that it intends to finance under the Framework. L&amp;Q has prioritised projects that it feels will support its progress towards delivering on the UN SDGs.</p> <p>To make the benefits quantifiable, L&amp;Q has provided a detailed list of potential KPIs. DNV can confirm that L&amp;Q has clearly outlined how it intends to support the performance and assessment of eligible projects by following the vision and focus points detailed in the Framework and in the 'Future Shape' corporate strategy document.</p> <p>The evidence reviewed gives us the opinion that future issuances to be issued under Framework will deliver clear social and/or environmental benefits.</p>

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	The issuer of a Sustainability Bond/Loan should outline the decision-making process it follows to determine the eligibility of projects using the proceeds	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> <li>• L&amp;Q Foundation (<a href="#">online</a>)</li> <li>• L&amp;Q Foundation impact infographic</li> <li>• Financial statements (2020)</li> </ul>	<p>DNV can confirm L&amp;Q has specified the eligibility criteria for each type of Green and Social project in the Use of Proceeds table of its Framework.</p> <p>L&amp;Q has established an 'ESG Financing Panel' which has overall responsibility for:</p> <ul style="list-style-type: none"> <li>• the documentation of the evaluation and selection process in order to facilitate external verification</li> <li>• the selection and approval of Eligible Projects</li> <li>• the investment of net proceeds received from the issuance of Use of Proceeds Instruments, and</li> <li>• the tracking and reporting of net proceeds.</li> </ul> <p>The ESG Financing Panel intends to meet at least on a semi-annual basis and will review the Group's wider ESG risks, and its management approach to addressing these.</p> <p>Based on the evidence reviewed, we can conclude that there is a robust decision-making process behind the approval of any Eligible Categories and Projects, considering the following set of parameters:</p> <ul style="list-style-type: none"> <li>• compliance with L&amp;Q's strategic objectives</li> <li>• the criteria of Eligible Categories as defined in this Framework</li> <li>• exclusion criteria as a method to identify and manage material environmental and social risks</li> <li>• identification and management of potentially material ESG risks associated with projects, via the Group's risk management system</li> <li>• compliance with any applicable environmental law, social standards, and regulations, and</li> <li>• where feasible, the ability to quantify, measure and report on Eligible Projects.</li> </ul> <p>DNV concludes that the activities to be financed by future issuances will be appropriately evaluated, selected, managed, and reported on as outlined within L&amp;Q's Framework, and that they meet the requirements under the GBP, SBP, SBG, GLP and SLP.</p>

<p>2b</p>	<p>Issuer’s environmental, social and governance framework</p>	<p>In addition to the information disclosed by an issuer on its Bond/Loan process, criteria and assurances, Bond/Loan investors may also take into consideration the quality of the issuer’s overall framework and performance regarding sustainability.</p>	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> </ul> <p>We also reviewed sustainability governance documentation:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Foundation annual report (2017/18)</li> <li>• L&amp;Q Future Shape: our five-year corporate strategy (2021-2026)</li> <li>• Financial statements (2020)</li> <li>• Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> <li>• L&amp;Q Foundation (<a href="#">online</a>)</li> <li>• L&amp;Q Living (<a href="#">online</a>)</li> <li>• L&amp;Q Fair pay report (2019)</li> <li>• L&amp;Q Foundation impact infographic</li> <li>• SECR Statement (2020-21)</li> <li>• Regulator of Social Housing - Housing Code of Governance 2020 (<a href="#">online</a>)</li> <li>• L&amp;Q Foundation impact infographic</li> <li>• L&amp;Q Residential report (2019)</li> <li>• L&amp;Q newsletter – Autumn (2020)</li> <li>• L&amp;Q newsletter – Spring (2020)</li> <li>• L&amp;Q newsletter – Summer (2020)</li> <li>• L&amp;Q newsletter – Winter (2020)</li> <li>• Social Value Report FY1920</li> <li>• Social Value Report FY1819</li> <li>• Sustainable Finance Framework baseline community investment figures</li> </ul>	<p>DNV has reviewed evidence showing that this process will be supported by a stringent governance framework, L&amp;Q’s ‘Future Shape’ document, its five-year corporate strategy running from 2021 to 2026. L&amp;Q’s sustainability commitment to “generate value for society, safeguard the environment and operate the business in a transparent and ethical manner” is highlighted in the Framework, and embedded in the Future Shape plan.</p> <p>This plan is shaped around five pillars:</p> <ul style="list-style-type: none"> <li>• Service: the services L&amp;Q provides</li> <li>• Homes: the homes L&amp;Q builds</li> <li>• People: the people forming the L&amp;Q team</li> <li>• Governance and assurance: L&amp;Q’s approach to governance and assurance, and</li> <li>• Finance: the finance that L&amp;Q manages and invests.</li> </ul> <p>For each pillar, the Future Shape document outlines a vision and a set of focus points. L&amp;Q has formed five corresponding working groups, which contribute to the strategy alongside multiple boards and committees:</p> <ul style="list-style-type: none"> <li>• the Resident Service Board</li> <li>• Development Committee</li> <li>• Audit and Risk Committee, and</li> <li>• Governance and Remuneration Committee.</li> </ul> <p>These committees are overseen by the Executive Group, the Group Board, L&amp;Q Living Group Board, and the L&amp;Q Group Board.</p> <p>L&amp;Q also reiterates in its Framework that through its status as a ‘not-for-profit charitable entity’, it is committed to reinvesting all its profits into the implementation of social and economic programmes and services, which are delivered by the L&amp;Q Foundation and L&amp;Q Living. In 2020/21, L&amp;Q invested £8m in L&amp;Q Foundation activities to support residential communities.</p> <p>The evidence reviewed gives DNV the opinion that the Framework is in line with L&amp;Q’s wider approach to managing environmental and social sustainability.</p>
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### 3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure	The net proceeds of a Bond/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.	In addition to reviewing the evidence below, we had several detailed discussions with L&Q.  Evidence reviewed: <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> </ul>	L&Q has established an ESG Financing Panel to manage the proceeds, and it has created a dedicated register, the ‘Sustainability Finance Projects Register’ to track the disbursements towards any Eligible Project.  L&Q intends to demonstrate transparency by holding the net proceeds in segregated accounts, until the amount can be allocated to the Eligible Project Portfolio.  DNV finds that L&Q has made 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 Bond/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: <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> </ul>	We conclude that L&Q has a clear process in place for tracking the balance of the proceeds taking into 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: <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> </ul>	We can conclude that L&Q has appropriately disclosed how it will manage any unallocated proceeds, in accordance with its Treasury policies.

### 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 Bond and where appropriate 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.	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> <li>Financial statements (2020)</li> <li>L&amp;Q Foundation (<a href="#">online</a>)</li> <li>L&amp;Q Fair pay report (2019)</li> <li>L&amp;Q Foundation impact infographic</li> <li>L&amp;Q Foundation annual report (2017/18)</li> <li>L&amp;Q newsletter – Autumn (2020)</li> <li>L&amp;Q newsletter – Spring (2020)</li> <li>L&amp;Q newsletter – Summer (2020)</li> <li>L&amp;Q newsletter – Winter (2020)</li> </ul>	<p>We confirm that L&amp;Q has committed to releasing its sustainability report on an annual basis. L&amp;Q will cover key information on the allocation of proceeds and the quantification of the environmental and social benefits of the selected projects, for which L&amp;Q has provided examples of potential KPIs:</p> <ul style="list-style-type: none"> <li>Number and proportion (%) of new developments with BREEAM certification or equivalent, including Home Quality Mark of 3 stars or above or New Construction certification of 'Very Good' or better</li> <li>Number and proportion (%) of new homes with an EPC rating in band B or above (%)</li> <li>The total capacity of renewable energy installations (kW).</li> <li>The proportion of purchased energy from renewable energy sources (%)</li> <li>Number and proportion (%) of homes within each EPC band / are rated at EPC band C or above</li> <li>Operational plant efficiency of communal heating systems managed by L&amp;Q Energy (%)</li> <li>Number of homes visited to provide tailored energy savings assessments, energy-saving products and behaviour change advice</li> <li>Number and proportion (%) of low emissions fleet vehicles.</li> <li>The number of installed electric vehicle charging points.</li> <li>The number of secure cycle parking spaces provides.</li> <li>Construction waste intensity (tonnes per 100 sq. m completed or under construction)</li> <li>Construction waste recycling rate (%) and construction waste diverted from landfill (%)</li> <li>Office waste intensity (tonnes per average daily staff attendance), office waste recycling rate (%) and office waste diverted from landfill (%)</li> <li>Construction site water intensity (cubic metres per 100 sq. m completed or under construction)</li> <li>Number of homes visited to provide tailored water savings assessments, water-saving products and behaviour change advice</li> <li>Average annual Modern Methods of Construction ("MMC") utilisation rate as specified in L&amp;Q's MMC roadmap (%).</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>• Number of new homes under development and proportion (%) of these deemed to be affordable</li> <li>• The ratio of average rent to average market rent by tenure</li> <li>• Number of residents accessing financial support services and the financial gains (£) generated for residents</li> <li>• Number of residents supported with tenancy sustainment services</li> <li>• Number of vulnerable residents participating in inclusion events or activities</li> <li>• Number of people supported into sustainable employment</li> <li>• Number of traineeships or apprenticeships offered</li> <li>• Gender, ethnicity, and disability pay gaps for L&amp;Q employees (%)</li> <li>• Number and value (£) of procurement contracts offered to small and medium-sized, woman-owned and/or minority-owned enterprises, including through L&amp;Q's Build London Partnership</li> <li>• Number of community organisations supported and value (£) of investment</li> </ul>



## SCHEDULE 4: SUSTAINABILITY-LINKED BOND 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	<p>The issuer’s sustainability performance is measured using sustainability KPIs that can be external or internal.</p> <p>The KPIs should be material to the issuer’s core sustainability and business strategy and address relevant environmental, social and/or governance challenges of the industry sector and be under management’s control. The KPI should be of high strategic significance to the issuer’s current and/ or future operations.</p> <p>It is recommended that issuers communicate clearly to investors the rationale and process according to which the KPI(s) have been selected and how the KPI(s) fit into their sustainability strategy.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> <li>• Financial statements (2020)</li> <li>• L&amp;Q Future Shape: our five-year corporate strategy (2021-2026)</li> <li>• L&amp;Q Foundation (<a href="#">online</a>)</li> <li>• L&amp;Q Fair pay report (2019)</li> <li>• L&amp;Q Foundation annual report (2017/18)</li> <li>• L&amp;Q Foundation annual report (2017/18)</li> <li>• SECR Statement (2020-21)</li> <li>• Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> <li>• Regulator of Social Housing - Housing Code of Governance 2020 (<a href="#">online</a>)</li> <li>• L&amp;Q Foundation impact infographic</li> <li>• L&amp;Q Residential report (2019)</li> <li>• L&amp;Q newsletter – Autumn (2020)</li> <li>• L&amp;Q newsletter – Spring (2020)</li> <li>• L&amp;Q newsletter – Summer (2020)</li> <li>• L&amp;Q newsletter – Winter (2020)</li> <li>• Social Value Report FY1920</li> <li>• Social Value Report FY1819</li> </ul> <p>Sustainable Finance Framework baseline community investment figures</p>	<p>It is in our opinion that L&amp;Q has set four KPIs that are material to the business and aligned to the Group’s commitment to delivering: low carbon and its long-term objective to achieve net-zero by 2050, meet the need for high quality, sustainable and affordable homes, and generate positive social impacts in communities all within predefined timeframes, for the relevant KPIs.</p> <p>The KPIs selected are highlighted as relevant, core and material to L&amp;Q’s overall business, and of high strategic significance to L&amp;Q’s current and/or future operations -addressing the relevant ESG challenges and risks to the business that are within L&amp;Q’s control. The KPI’s have been confirmed as material by L&amp;Q’s ESG Financing Panel. We can also confirm that the four KPI’s commit the business to future sustainability improvements within predefined timelines and are reviewed at least annually by L&amp;Q’s ESG Financing Panel.</p> <p>In summary, the carbon intensity of electricity generated is deemed material as it is a key measure of L&amp;Q’s performance towards Net Zero by 2050, at the latest. As a provider of social housing, the energy performance of L&amp;Q’s portfolio is within L&amp;Q’s control and core to its ESG Strategy, and the UK Governments objectives to improve “the energy efficiency of UK housing stock”. Operating as a housing association focused on placemaking and providing affordable homes to people, committing to helping solve the UK housing crisis by building new and affordable homes built in England for social housing purposes, is in L&amp;Q’s influence. That is in addition to generating positive social impacts in communities where residents live, and made achievable by contributing investments into social projects through the L&amp;Q Foundation (e.g. in 2020/2021 £8m into residential activities was invested), and by aligning to Target 11 of the SDGs.</p> <p>Having reviewed the material provided, DNV also notes that L&amp;Q has conducted the following activity to validate that the KPI’s set are indeed relevant and material to the overarching ESG strategy:</p> <ul style="list-style-type: none"> <li>• <b>Stakeholder engagement</b> – helping L&amp;Q to understand the key material topics of importance to colleagues, residents, leaders,</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>the Executive Team and L&amp;Q's Group Board, in order to define the strategic priorities for the next five years and beyond.</p> <p>Based on the work undertaken, DNV can confirm that the KPI's are relevant, core and material to the Group's overarching corporate strategy. The rationale and process for KPI selection, as well as the definition, measurability and verifiability, are clearly defined and presented within the Framework.</p> <p>In conclusion, the KPIs set out by L&amp;Q are consistent with the SLBP and SLLP, and are material to The Group's overarching ESG strategy.</p>
1b	KPI - Measurability	<p>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.</p> <p>Issuers are encouraged, when possible, to select KPI(s) that they have already included in their previous annual reports, sustainability reports or other non-financial reporting disclosures to allow investors to evaluate the historical performance of the KPIs selected.</p> <p>In situations where the KPIs have not been previously disclosed, issuers should, to the extent possible, provide historical externally verified KPI values covering at least the previous 3 years.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> <li>• Financial statements (2020)</li> <li>• Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> <li>• L&amp;Q Foundation impact infographic</li> <li>• L&amp;Q Foundation annual report (2017/18)</li> <li>• L&amp;Q Residential report (2019)</li> <li>• SECR Statement (2020-21)</li> </ul>	<p>It is in our opinion that the KPIs chosen by L&amp;Q are measurable, quantifiable, and can be benchmarked against industry standards and/or peers operating in the same sector. The KPIs summarised below are either in alignment with the UN Sustainable Development Goals (SDGs), industry standards, or UK/EU environmental objectives:</p> <p><b>KPI 1 – Operational carbon emissions (Scope 1 and 2):</b></p> <ul style="list-style-type: none"> <li>• Baseline: 2019/20</li> <li>• Aligned with the UK Government energy and carbon reporting (SECR) methodology and the GHG Protocol Corporate Standard</li> <li>• SDG alignment - Goal #7 (Affordable and Clean Energy) and Goal #13 (Climate Action)</li> <li>• Commitment to the UK Net Zero roadmap</li> <li>• Paris-aligned and set in accordance with the SBTi methodology</li> <li>• 2019/20 is their first year of reporting therefore no historical data was available before this. However, L&amp;G has committed to annual ongoing reporting which will be verified by an external auditor or an appropriate, qualified and independent verification agent(s) or an independent rating agency (the "External Verifier") and made available on L&amp;Q's website.</li> </ul> <p><b>KPI 2 - Energy Efficiency of Residential Homes (Scope 3 impact)</b></p> <ul style="list-style-type: none"> <li>• Aligns with the 'Standard Assessment procedures' (SAP) methodology - theoretical energy performance of a building – long term goal to achieve an EPC rating of A</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>SDG alignment - Goal #7 (Affordable and Clean Energy) and Goal #13 (Climate Action)</li> <li>DNV notes that the baseline figure is a provisional estimate based on approximately 70% data completeness, and will be restated as further data is completed. As with KPI1 L&amp;Q have committed to externally verified annual reporting.</li> </ul> <p><b>KPI 3: Affordable homes</b></p> <ul style="list-style-type: none"> <li>Aligned with The Clean Growth Strategy (2017) to provide “as many homes as possible”, and where “practical, cost-effective and affordable” homes</li> <li>The % of new social Homes built aligns with the definition by the Housing &amp; Regeneration Act (2008)</li> <li>SDG alignment - Goal #1 (No Poverty) and Goal #11 (Sustainable Cities &amp; Communities)</li> <li>L&amp;G has provided 3 years of historical data which has been external assured and has been previously included within the Financial Statement</li> </ul> <p><b>KPI 4: Community Investment</b></p> <ul style="list-style-type: none"> <li>Committed to generating a positive, social impact on the communities where residents live, with investment directed to communities based on ‘social need’ under the UK’s National Planning Policy Framework.</li> <li>SDG alignment - Goal #10 (Reduced inequality) and Goal #11 (Sustainable Cities &amp; Communities)</li> <li>L&amp;G has provided 3 years of historical data which has been external assured and has been included within L&amp;G’s Budget Report</li> </ul> <p>From the documents assessed we can confirm:</p> <ul style="list-style-type: none"> <li>A clear baseline year has been set</li> <li>Each KPI is externally verifiable against the applicable international or national reporting standards and frameworks (e.g., GHG Protocol and the SBTi guides; UN SDGs), and</li> <li>Each year L&amp;Q will assure the data by a third party, and will release a statement available on its website, and in its annual Sustainability report, to verify this has taken place.</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>DNV can confirm that the measurability of the four KPI's are clearly defined, and information on this will be published in the Group's annual sustainability report. Three years of data have been provided and a thorough benchmarking exercise has been conducted to set its targets.</p>
1c	KPI – Clear definition	A clear definition of the KPI(s) should be provided and include the applicable scope or perimeter, as well as the calculation methodology	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> <li>• L&amp;Q Foundation annual report (2017/18)</li> <li>• SECR Statement (2020-21)</li> <li>• Financial statements (2020)</li> <li>• Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> <li>• Regulator of Social Housing - Housing Code of Governance 2020 (<a href="#">online</a>)</li> <li>• L&amp;Q Foundation impact infographic</li> <li>• L&amp;Q Residential report (2019)</li> <li>• L&amp;Q newsletter – Autumn (2020)</li> <li>• L&amp;Q newsletter – Spring (2020)</li> <li>• L&amp;Q newsletter – Summer (2020)</li> <li>• L&amp;Q newsletter – Winter (2020)</li> <li>• Social Value Report FY1920</li> <li>• Social Value Report FY1819</li> <li>• Sustainable Finance Framework baseline community investment figures</li> </ul>	<p>It is DNV's opinion that L&amp;Q has provided and included the applicable scope, parameters, and calculation methodology where relevant as required under the SLBP and SLLP, for all four KPI's:</p> <p><b>KPI 1 – Operational carbon emissions (Scope 1 and 2):</b></p> <ul style="list-style-type: none"> <li>• Baseline: 2019/20</li> <li>• Aligned with the UK Government energy and carbon reporting (SECR) methodology - and the GHG Protocol Corporate Standard:</li> <li>• <i>Scope 1 – direct emissions originating from assets that L&amp;Q owns or controls.</i></li> <li>• <i>Scope 2 – indirect emissions from electricity purchased by L&amp;Q, and</i></li> <li>• <i>As L&amp;Q move towards an SBTi approved targets, a Scope 3 target would be established as part of the SBT-setting process, but it would not be part of part of SPT1 in this Framework</i></li> </ul> <p><b>KPI 2 – Energy Efficiency of Residential Homes (Scope 3 impact)</b></p> <ul style="list-style-type: none"> <li>• Baseline: Average calculated SAP score of 71.5 as of 31 March 2021.</li> <li>• Methodology aligned with the 'Standard Assessment Procedures' (SAP) - the theoretical energy performance of a building on a scale of 1 to 100.</li> <li>• SAP ratings will be averaged for all residential units where L&amp;Q has operational control for making improvements to provide an overall energy rating for the portfolio and will be reported as EPC ratings.</li> <li>• Where EPCs are unknown, or works have taken place, but the EPC has not yet been updated, appropriate modelling may be used to estimate the energy efficiency or improvement in energy efficiency, the methodology for which will be disclosed by L&amp;Q.</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p><b>KPI 3: Affordable homes</b></p> <ul style="list-style-type: none"> <li>• Baseline: 2,439 homes built in 2019/20, of which 49% were for affordable housing. 2,874 homes built in 2018/19 and 2,453 in 2017/18.</li> <li>• Methodology aligned with The Clean Growth Strategy (2017) to provide “as many homes as possible” and where “practical, cost-effective and affordable” housing:               <ul style="list-style-type: none"> <li>○ <i>New homes handed over</i></li> <li>○ <i>% of Social Homes (as defined by the Housing &amp; Regeneration Act 2008) built</i></li> <li>○ <i>Homes enabled (strategic land plots sold)</i></li> <li>○ <i>Homes started</i></li> <li>○ <i>Homes under development, and</i></li> <li>○ <i>Strategic land plots under control.</i></li> </ul> </li> <li>• L&amp;Q aims to deliver c2.5% of affordable homes built in England.</li> </ul> <p><b>KPI 4: Community Investment</b></p> <ul style="list-style-type: none"> <li>• Data is reported by the L&amp;Q Foundation, which will disclose the investment (£) directed to communities based on ‘social need’, in accordance with the UK’s National Planning Policy Framework.</li> <li>• L&amp;Q will use a baseline of a £2.5 million investment in 2019/2020, to calculate an annual 10% increase, up to the year-2030.</li> </ul> <p>DNV can confirm that the scope, parameters, and calculation methodology for the four KPI’s are clearly defined within the Framework and meet the criteria set out by the SLBP and SLLP.</p>

## 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 issuer’s business and be consistent with the issuers’ overall strategic sustainability/ESG strategy	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> <li>L&amp;Q Foundation annual report (2017/18)</li> <li>Financial statements (2020)</li> <li>Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> <li>Regulator of Social Housing - Housing Code of Governance 2020 (<a href="#">online</a>)</li> <li>L&amp;Q Foundation impact infographic</li> <li>L&amp;Q Residential report (2019)</li> <li>L&amp;Q newsletter – Autumn (2020)</li> <li>L&amp;Q newsletter – Spring (2020)</li> <li>L&amp;Q newsletter – Summer (2020)</li> <li>L&amp;Q newsletter – Winter (2020)</li> <li>Social Value Report FY1920</li> <li>Social Value Report FY1819</li> <li>Sustainable Finance Framework baseline community investment figures</li> </ul>	<p>After reviewing the evidence provided, DNV can confirm that the selected KPI’s outlined in 1a, are aligned with the following four SPT’s set out below, and that they are meaningful, i.e., they help L&amp;Q address key social and environmental challenges which are of concern to their stakeholders and the UK housing sector more widely:</p> <ul style="list-style-type: none"> <li><b>SPT 1:</b> Reductions in Scope 1 &amp; 2 Green House Gas (GHG) emissions (scope 1 and 2) generated.</li> <li><b>SPT 2:</b> Improvements in downstream emissions by improving energy usage in homes, based on an SAP measure, aligned with EPC ratings.</li> <li><b>SPT 3:</b> Number of new homes built, acquired, and let, with at least 50% of these provided as “affordable” housing.</li> <li><b>SPT 4:</b> Funding invested in local community organisations to generate positive social impact on the communities where residents live.</li> </ul> <p>DNV can confirm that the above SPT’s will help L&amp;Q in its commitment to achieving Net-Zero by 2050; reduce operational carbon emissions (scope 1 and 2) and downstream emissions to improve energy usage levels in homes; improve the housing crisis through building or acquiring new and affordable homes, and directing funding that is invested into strengthening communities with a social need. DNV also notes that L&amp;Q has an internal governance process in place, as outlined in 4a to help manage sustainability risks (social and environmental), align with future regulation, and foresee potential opportunities. DNV can confirm that all four SPTs are consistent with L&amp;Q’s overall ESG strategy.</p>
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 issuance of the bond.	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> <li>L&amp;Q Foundation annual report (2017/18)</li> <li>Financial statements (2020)</li> <li>Financial statements (2020)</li> </ul>	<p>Having reviewed the evidence provided, DNV can confirm that all SPTs represent a material improvement in the respective KPIs, are appropriately tied to a predetermined performance target benchmark, and that the SPTs are above a “Business as Usual” trajectory, assuming:</p> <ul style="list-style-type: none"> <li>No severe disruption to capture expenditure programme due to events outside of L&amp;Q’s control.</li> <li>Lack of governmental policy, guidance and/or regulatory support – or the introduction of new regulation outside of the scope of L&amp;Q’s control.</li> <li>UK Government support through the provision of Social Housing Grant and housing benefit and/or Universal Credit.</li> </ul>

			<ul style="list-style-type: none"> <li>• Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> <li>• Regulator of Social Housing - Housing Code of Governance 2020 (<a href="#">online</a>)</li> <li>• L&amp;Q Foundation impact infographic</li> <li>• L&amp;Q Residential report (2019)</li> <li>• L&amp;Q newsletter – Autumn (2020)</li> <li>• L&amp;Q newsletter – Spring (2020)</li> <li>• L&amp;Q newsletter – Summer (2020)</li> <li>• L&amp;Q newsletter – Winter (2020)</li> <li>• Social Value Report FY1920</li> <li>• Social Value Report FY1819</li> <li>• Sustainable Finance Framework baseline community investment figures</li> </ul>	<ul style="list-style-type: none"> <li>• Green skills and knowledge gap within the UK workforce.</li> <li>• Price, availability, and access to land which pushes up the cost of building new homes.</li> <li>• Fluctuating levels of funding for community investment activities.</li> <li>• Changes to regulatory framework impacting on community investment activity.</li> <li>• Low level of resident engagement with invested organisations and activities.</li> <li>• Lack of investment opportunities within the VCSE sector in relevant localities and impact areas.</li> <li>• Availability and accuracy of key social need data to drive targeted investment</li> </ul> <p>We can confirm that each SPT is aligned with as much as possible, either science (SBTi guidelines) or aligned to industry standards and goals. However, L&amp;Q has not yet calculated its SBT's (medium-term target) but has set out an intent to set one by the year-2024, aligned to a well below 2-degree scenario.</p> <p>We conclude that L&amp;Q has set out a clear calculation methodology for its SPTs, provided historic data (where viable), and that is in line with the bond and loan characteristics of the SLBP and SLLP.</p>
2c	Target Setting – benchmarks	<p>The target setting exercise should be based on a combination of benchmarking approaches:</p> <ol style="list-style-type: none"> <li>1. The issuer's own performance over time for which a minimum of 3 years, where feasible, of measurement track record on the selected KPI(s) is recommended and when possible forward-looking guidance on the KPI</li> <li>2. The SPTs relative positioning versus the issuer's peers where comparable or available, or versus industry or sector standards</li> <li>3. Systematic reference to science-based scenarios, or absolute levels (e.g. carbon budgets) or official country/regional/international</li> </ol>	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> <li>• Financial statements (2020)</li> <li>• L&amp;Q Foundation annual report (2017/18)</li> <li>• Social Value Report FY1920</li> <li>• Social Value Report FY1819</li> <li>• Sustainable Finance Framework baseline community investment figures</li> <li>• Financial statements (2020)</li> <li>• Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> </ul>	<p>DNV can confirm L&amp;Q has demonstrated evidence of historic performance data for the SPTs where viable. Based on the peer and industry analysis provided, we conclude that the targets are leading or in line with peers or when assessed against relevant industry standards:</p> <ul style="list-style-type: none"> <li>• <b>SPT 1</b> is aligned with L&amp;Q's long-term target to be net-zero by 2050 and to reduce its own operational carbon emissions in line with science. This target is set to be SBTi approved by the year 2024.</li> <li>• <b>SPT 2</b> supports the Group's long-term objective to reduce downstream emissions in housing by improving energy efficiency ratings.</li> <li>• <b>SPT 3</b> supports the UK's commitment to addressing the housing crisis in the UK through the provision of "affordable housing" (i.e., building 300,000 homes per year). L&amp;Q has a long-term target to have contributed 100,000 new homes (built or enabled) by 2050.</li> <li>• <b>SPT 4</b> supports L&amp;Q's commitment to implement social and economic programmes and services in communities that will have a measurable impact.</li> </ul>

		<p>targets or to recognised Best-Available-Technologies or other proxies</p>	<ul style="list-style-type: none"> <li>Regulator of Social Housing - Housing Code of Governance 2020 (<a href="#">online</a>)</li> <li>L&amp;Q Foundation impact infographic</li> <li>L&amp;Q Residential report (2019)</li> <li>L&amp;Q Foundation annual report (2017/18)</li> <li>L&amp;Q newsletter – Autumn (2020)</li> <li>L&amp;Q newsletter – Spring (2020)</li> <li>L&amp;Q newsletter – Summer (2020)</li> <li>L&amp;Q newsletter – Winter (2020)</li> <li>Social Value Report FY1920</li> <li>Social Value Report FY1819</li> <li>Sustainable Finance Framework baseline community investment figures</li> </ul>	
2d	Target setting – disclosures	<p>Disclosures on target setting should make clear reference to:</p> <ol style="list-style-type: none"> <li>The timelines of target achievement, the trigger event(s), and the frequency of SPTs</li> <li>Where relevant, the verified baseline or reference point selected for the improvement of the KPIs as well as the rationale for that baseline or reference point to be used</li> <li>Where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place</li> <li>Where possible and taking into account competition and confidentiality considerations, how the issuers intend to reach such SPTs</li> </ol>	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> <li>SECR Statement (2020-21)</li> <li>L&amp;Q Fair pay report (2019)</li> <li>L&amp;Q Foundation impact infographic</li> <li>Social Value Report FY1920</li> <li>Social Value Report FY1819</li> <li>Sustainable Finance Framework baseline community investment figures</li> <li>Financial statements (2020)</li> <li>Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> <li>Regulator of Social Housing - Housing Code of Governance 2020 (<a href="#">online</a>)</li> <li>L&amp;Q Foundation impact infographic</li> <li>L&amp;Q Residential report (2019)</li> <li>L&amp;Q Foundation annual report (2017/18)</li> <li>L&amp;Q newsletter – Autumn (2020)</li> <li>L&amp;Q newsletter – Spring (2020)</li> <li>L&amp;Q newsletter – Summer (2020)</li> </ul>	<p>DNV can confirm that the relevant disclosures on target setting are described within the Framework, within a predefined timeline, and that L&amp;Q has committed to relevant disclosures and target setting. Timelines to achieve each target are clearly referenced for all four KPIs in the short-term (2024), medium-term (2030) and long term (2050)- and complies with recognised standards.</p> <p>Where relevant, KPI's are to be measured and reported against a baseline year:</p> <ul style="list-style-type: none"> <li><b>SPT 1:</b> baseline year of 2019/2020 according to the SECR methodology; aligns with the SBTi guidelines and the UK Net Zero ambition.</li> <li><b>SPT 2:</b> aligns with the UK 'Future Homes' standard, the SAP methodology and EPC ratings for energy efficiency.</li> <li><b>SPT 3:</b> where 49% of homes were "affordable" and aligns with the UN SDGs #7 and #13. DNV notes there is no official measure to compare housing needs in England.</li> <li><b>SPT 4:</b> investment by the L&amp;Q Foundation to communities as identified by social need.</li> </ul> <p>DNV can confirm that each SPT is aligned with science or industry standards, has a clear calculation methodology in place, that historic performance has been outlined, and where relevant, are set on a predefined timeline, and that short-, medium- and long-term targets have clearly been defined.</p> <p>Exact targets for a specific transaction would need to be included in the relevant linked bond or loan documentation.</p>



			<ul style="list-style-type: none"><li>• L&amp;Q newsletter – Winter (2020)</li><li>• Social Value Report FY1920</li><li>• Social Value Report FY1819</li><li>• Sustainable Finance Framework baseline community investment figures</li></ul>	
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### 3. Financial Characteristics

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Bond or Loan Characteristics – SPT Financial/structural impact	The SLB/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).	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> <li>Financial statements (2020)</li> <li>L&amp;Q Foundation (<a href="#">online</a>)</li> <li>L&amp;Q Foundation annual report (2017/18)</li> </ul>	<p>DNV can confirm that L&amp;Q can use on, all or a selection of KPIs and/or SPT's in a relevant Sustainability-Linked instrument. The Sustainability Linked Instruments include explicit "Structural incentives" that are non-binary in nature when multiple targets are in place. Any structural incentive will be applied for any interest period, commencing on or after the interest payment date immediately following the Notification Date (15 days after publication, or no later than 90 days). Where a structural incentive results in an interest saving, DNV concludes that L&amp;Q will directly attribute that saving to the 'L&amp;Q Foundation' (a not-for-profit charitable entity). This will be used for the implementation of social and economic programmes and services in communities.</p> <p>DNV has reviewed the Framework and supporting evidence and can confirm the failure by L&amp;Q to satisfy the SPT's on a set Target Observation Date will trigger a pre-determined coupon adjustment (step-up or step-down), or financial penalty (payment of a premium at maturity) as applicable, payable by L&amp;Q to Noteholders in any SLB. Any variation of a Margin in any SLL will be documented in the appropriate loan agreement, accordingly.</p> <p>We can confirm L&amp;Q's commitment to the linked bond and loan characteristics is in line with the requirements of the SLBP and SLLP.</p>
3b	Bond or Loan Characteristics – Fallback mechanism	Any fallback mechanisms in case the SPTs cannot be calculated or observed in a satisfactory manner should be explained. Issuers may also consider including, where needed, language in the bond documentation to take into consideration potential exceptional events.	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> </ul>	<p>From the evidence reviewed, we can confirm there appears to be little risk of L&amp;Q not being able to calculate its KPIs – e.g., the change of scope in the industry standards L&amp;Q has aligned with, non-satisfactory audit review, or the maturity of the GHG reporting framework that is followed for the SBTi.</p> <p>DNV can confirm L&amp;Q's commitment to the linked bond and loan characteristics is in line with the requirements of the SLBP and SLLP.</p>

#### 4. Reporting commitments

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Reporting	<p>Issuers of SLB/SLLs should publish, and keep readily available and easily accessible:</p> <ol style="list-style-type: none"> <li>Up-to-date information on the performance of the selected KPI(s), including baselines where relevant</li> <li>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 bond's financial and/or structural characteristics</li> <li>Any information enabling investors to monitor the level of ambition of the SPTs</li> </ol> <p>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 SLB and/or SLL's financial and/or structural characteristics.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> <li>Financial statements (2020)</li> <li>Sustainability Reporting Standard for Social Housing (Nov. 2020)</li> <li>Regulator of Social Housing - Housing Code of Governance 2020 (<a href="#">online</a>)</li> <li>L&amp;Q Foundation impact infographic</li> <li>L&amp;Q Residential report (2019)</li> <li>L&amp;Q Foundation annual report (2017/18)</li> <li>L&amp;Q newsletter – Autumn (2020)</li> <li>L&amp;Q newsletter – Spring (2020)</li> <li>L&amp;Q newsletter – Summer (2020)</li> <li>L&amp;Q newsletter – Winter (2020)</li> <li>Social Value Report FY1920</li> <li>Social Value Report FY1819</li> <li>Sustainable Finance Framework baseline community investment figures</li> </ul>	<p>We can confirm that L&amp;Q has committed to reporting annual progress against the KPIs as part of its annual report/non-financial statement or Sustainability Report, which is verified externally and available on L&amp;Q's website.</p> <p>The reporting may include:</p> <ul style="list-style-type: none"> <li>Up-to-date information on the performance of the selected KPI, including the baseline where relevant</li> <li>A verification assurance report relative to the KPI outlining the performance against the SPT, and/or</li> <li>Any relevant information enabling investors to monitor the progress of the KPI and the SPT</li> </ul> <p>Information may also include, when feasible and possible:</p> <ul style="list-style-type: none"> <li>A qualitative or quantitative explanation of the contribution of the main factors behind the evolution of the KPI or SPT on an annual basis</li> <li>Illustration of the positive sustainability impact of the performance improvement, and/or</li> <li>Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant.</li> </ul> <p>L&amp;Q is regulated by the 'Regulator of Social Housing' and governance is at the forefront of The Group's attention. It was observed in the information provided by L&amp;Q, that it was awarded the highest ratings for governance and viability – the G1/V1, by the Regulator of Social Housing'.</p> <p>L&amp;Q's governance structure ensures accountability for setting the ESG strategy, and the delivery of L&amp;Q's vision:</p> <ul style="list-style-type: none"> <li><b>"Group Board"</b> includes a resident, ensuring that the community voice is taken into account in decision making. L&amp;Q states that <i>"Strong local accountability and resident representation at the heart of our governance"</i>.</li> <li><b>"ESG Financing Panel"</b>, chaired by the Executive Director and formed by members of the Treasury, Governance, L&amp;Q Foundation and Development Teams who meet on a semi-annual basis.</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>This Panel is responsible for the overall governance of L&amp;Q's Framework, activities include:</p> <ul style="list-style-type: none"> <li>o <i>reviewing documentation of the evaluation and selection process</i></li> <li>o <i>selection and approval of projects; facilitating external verification (if required)</i></li> <li>o <i>investment of net proceeds received from the issuance of Sustainability-Linked Instruments, and</i></li> <li>o <i>tracking and reporting of net proceeds.</i></li> </ul> <p>It is in DNV's opinion that L&amp;Q has appropriately committed to reporting and that it is in line with the requirements of the SLBP and SLLP.</p>
4b	Second Party Opinion	Publication of any pre-issuance external review, such as a second party opinion, or if relevant a verification of baselines.	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework</li> </ul>	<p>L&amp;Q has committed to conducting a Second Party Opinion on the Framework meeting the ICMA and LMA criteria. This includes an assessment of the KPIs selected, baselines and SPTs selected, and the credibility of the strategy to achieve them.</p> <p>DNV can confirm the pre-issuance of any publication is in line with the requirements of the SLBP and SLLP.</p>

## 5. Verification

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
5a	External Verification	Issuers 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.	<p>In addition to reviewing the evidence below, we had several detailed discussions with L&amp;Q.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework</li> </ul>	<p>L&amp;Q commits to reporting on all KPIs on an annual basis as part of L&amp;Q's annual Sustainability Report, which is verified by external auditors and available on L&amp;Q's website.</p> <p>A Verification Statement or an appropriate summary confirming whether the performance of the KPI meets the relevant SPT, will be published on L&amp;Q's website, and in writing to the Principal Paying Agent and Noteholders, following a relevant target observation date.</p> <p>DNV can confirm L&amp;Q's commitment to verification is in line with the requirements of the SLBP and SLLP.</p>