

# L&Q SUSTAINABILITY FINANCE FRAMEWORK 2024



**Document title:** Second Party Opinion on L&Q Sustainability Finance Framework 2024

**Prepared by:** DNV Supply Chain and Product Assurances Services UK Limited

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This assessment is valid so long as the evidence provided to DNV remains materially unchanged and remains applicable in the context of the financial instrument being assessed.

# L&Q SUSTAINABILITY FINANCE FRAMEWORK 2024

## 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, and the North West. As a leading housing association and developer, L&Q’s vision is that “everyone deserves a quality home that gives them the chance to live a better life”. Integral to the delivery of this mission is L&Q’s Group’s ESG agenda, which outlines the following long-term targets:

- Enable sustainable economic and housing growth;
- Achieve Net-Zero by 2050;
- Collaborate with others to achieve significant improvement in social impact and social value; and
- Safeguard the environment.

In its capacity as a social housing provider, L&Q complies with the UK’s National Planning Policy Framework (2023). This 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 reach its 2050 Net-Zero goal, L&Q has set in motion a Decarbonisation Plan for Existing Homes and a roadmap to improve efficiency in new build homes. L&Q has mapped its full carbon footprint and in 2022/23 disclosed for the first time an estimation of total Scope 3 emissions, as part of its Sustainability Report. L&Q is currently modelling future carbon emissions pathways, with the aim of aligning with the Science-Based Target Initiative (“SBTi” methodology) and a well-below 2-degree scenario, by 2026.

The core of L&Q’s activity is the management and development of social housing as defined by the ‘Housing and Regeneration Act 2008’. However, the Group’s social purpose is to deliver wider benefits to society by investing in better services for all of communities living in L&Q’s properties. 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, and is targeting an average of 3,000 new-build homes throughout the lifetime of its Corporate Strategy, which runs from 2021 to 2026.

L&Q has developed a Sustainability Finance Framework 2024 (the “Framework”) to support the delivery of the Group’s Corporate Strategy (‘Future Shape 2021-2026’), 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
- 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 (collectively referred to as, “Use of Proceeds Instruments”); and

- Issuance of Sustainability-Linked Bonds (including public bonds or private placements) 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 Supply Chain and Product Assurance Services UK Limited (“DNV”) has been commissioned by L&Q to provide an eligibility assessment of their Sustainability Finance Framework 2024 (the “Framework”), under which it can finance and support specific activities (outlined in [Schedule 1](#)) or with general purpose on the basis of enabling the compliance of the SPTs, (outlined in [Schedule 2](#)).

Our objective has been to provide an assessment of whether the Framework meets the criteria established within the ICMA Green Bond Principles 2021 (with 2022 Appendix) (“GBP”), Social Bond Principles 2023 (“SBP”), Sustainability Bond Guidelines 2021 (“SBG”), Sustainability-Linked Bond Principles 2023 (“SLBP”) and the LMA Green Loan Principles 2023 (“GLP”), Social Loan Principles 2023 (“SLP”) and the Sustainability-Linked Loan Principles 2023 (“SLLP”).

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.

## 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 GBPs, SBPs, SBGs, GLPs and the SLPs, as well as the SLBPs and the SLLPs, to create an L&Q-specific Sustainable Finance 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 and/or 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 and 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>
<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 rating 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 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
<b>Principle One:</b>	<p><b>Use of Proceeds:</b></p> <p>The Framework allows the issuing of 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.</p> <p>L&amp;Q intends to use the net proceeds from Use of Proceeds instruments issued under the Framework to exclusively finance projects/assets from the following categories that are in line with the relevant GBP, SBP, SBG, GLP and SLP guidelines:</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>• Eco-efficient and/ or circular economy-adapted products, production technologies and processes.</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><b>Selection of Key Performance Indicators (KPIs):</b></p> <p>L&amp;Q has identified three KPIs deemed as material to the business. The KPIs align with the Group’s environmental commitments of climate action, resource efficiency and healthy places, as well as with its social impact focus areas of providing affordable and secure homes, delivering community investment and supporting residents.</p> <p>The three selected KPIs are summarised below:</p> <p><b>KPI 1: Energy Efficiency – Average SAP score:</b></p> <p>Standard assessment procedures (SAP) ratings are currently being used by the UK government to estimate the performance of homes.</p> <p>Energy efficiency is a core and strategic topic for L&amp;Q since it delivers a social benefit as part of the reduction of energy bills for tenants; an environmental benefit by reducing energy-related GHG emissions; and a financial benefit for L&amp;Q customers through reduced costs.</p> <p><b>KPI 2: New Homes Built – New homes built and % of affordable homes:</b></p> <p>Building new homes is essential to meet the high housing demand within the UK.</p> <p>Building and delivering new homes, especially to the less advantaged, is the core of L&amp;Q’s business model and strategy. It is also a social need which is relevant and material for L&amp;Q to address, in view of the UK’s Housing Crisis and the UK’s housebuilding targets.</p>

	Use of Proceeds Bonds and Loans	Sustainability-Linked Bonds and Loans
	<p>For the Eligible Social Project categories, L&amp;Q has identified appropriate target populations in line with the requirements of the SBPs and the SLPs (see <a href="#">Schedule 1</a>).</p> <p>For Eligible Green Project categories, L&amp;Q has specified suitable eligibility criteria such as Green Building certifications representing top performance within the local building stock (see <a href="#">Schedule 1</a>). L&amp;Q has also included criteria to reduce GHG emissions including embodied carbon within its construction activity and make its properties more resource and energy-efficient.</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>L&amp;Q has aligned its Environmental Eligible Categories with 'Environmental Objectives' per the EU Taxonomy Regulation.</p> <p>L&amp;Q has also aligned its Social Eligible Categories with the Sustainability Reporting Standard for Social Housing, a voluntary disclosure framework initially published in 2020 that provides guidance to UK housing providers for reporting on their ESG performance.</p> <p>L&amp;Q has mapped the eligible project categories against their relevant UN SDGs (see <a href="#">Schedule 1</a>). DNV concludes that these are appropriately aligned with the UN SDGs.</p> <p>To make the benefits quantifiable, L&amp;Q has also provided a list of potential metrics for each Eligible Project category (see <a href="#">Schedule 1</a>).</p> <p>For refinancing, L&amp;Q has set a look-back period of 36 months from the date of issuance of any Use of Proceeds instrument under the Framework. L&amp;Q has committed to a minimum share of 70% of financing versus refinancing.</p> <p>DNV can conclude that the Green and Social Eligible Projects as described within the Framework, fall into the defined categories of the GBPs, SBPs, SBGs, GLPs and SLPs and will deliver clear environmental and social benefits.</p>	<p><b>KPI 3: Investment in Financial Support Services - £ invested:</b></p> <p>Through the Pound Advice service, L&amp;Q will fund trained experts to offer residents free and confidential advice to help with budgeting, debt and benefits.</p> <p>Supporting L&amp;Q's residents to increase their incomes and financial resilience is a key strategic pillar for the L&amp;Q Foundation, which aims to deliver L&amp;Q's strategic focus of building sustainable communities at a local level.</p> <p>DNV can confirm that the KPIs are relevant, core, and material to the Group's overarching corporate and sustainability business strategy.</p> <p>Based on the review undertaken, DNV is of the opinion that the KPIs selected by L&amp;Q are measurable, quantifiable, and can be benchmarked against industry standards, UK regulations, peers operating in the same sector, and/or externally verified performance over the past 3 years.</p> <p>DNV can also confirm that the scope, parameters, and calculation methodology for the three KPIs are clearly defined within the Framework and that they meet the criteria as set out by the SLBPs and the SLLPs</p> <p>A detailed analysis of DNV's assessment of the KPIs is outlined in <a href="#">Schedule 4, Section 1</a> of this SPO.</p>
<p><b>Principle Two:</b></p>	<p><b>Process for Project Evaluation and Selection:</b></p> <p>L&amp;Q has established an 'ESG Financing Panel', which sits within the remit of the Senior Leadership Group (SLG) and will be responsible for the governance of this Framework including:</p> <ul style="list-style-type: none"> <li>• The documentation of the evaluation and selection process to facilitate external verification (if required)</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</li> <li>• The tracking and reporting of net proceeds.</li> </ul>	<p><b>Calibration of Sustainability Performance Targets (SPTs):</b></p> <p><b>SPT 1: % Energy Efficiency - Average SAP score of 72.8 by 2026</b></p> <p>L&amp;Q set a 2024 Sustainability Performance target to reach an average SAP score of 72 or above. By 2030 L&amp;Q aims to achieve a minimum EPC of C for all homes, and to continue to increase its Average SAP.</p> <p>Relative to its peers, L&amp;Q has a high number of homes more than one hundred years old and/or listed. This makes obtaining rights for retrofitting more difficult. As such, L&amp;Q is prohibited from making some of the key environmental changes within its ambition, which makes maintaining the level of SAP increases each year less</p>

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	<p>During the decision-making for Project approval, the Panel will also consider exclusion criteria to identify and manage potential social and environmental risks associated with the Projects.</p> <p>The Panel will meet at least on a semi-annual basis at a minimum.</p> <p>DNV has also reviewed evidence showing that the Framework aligns with L&amp;Q's overall sustainability efforts.</p> <p>Sustainability is embedded in L&amp;Q's 'Future Shape' five-year corporate strategy, running from 2021 to 2026. This strategy builds on five pillars: Service, Homes, People, Governance and Assurance and Finance. L&amp;Q has set out the governance arrangements to deliver the Strategy, including five working groups and multiple boards and committees overseeing the process, as well as strategic priorities, KPIs and targets for each individual pillar.</p> <p>The eligibility criteria for Green and Social Project categories outlined in the Framework also align with L&amp;Q's focus areas for both environmental and social impact management.</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>	<p>realistic. It is DNV's view that, while the average SAP scores do not appear ambitious, they are stretching for L&amp;Q.</p> <p>Furthermore, L&amp;Q has attempted a peer comparison of average SAP and found that due to the diverse nature of its own housing stock, there is not any one peer directly comparable. L&amp;Q's historical average score is of 71% and 72%, slightly lower than peers' due to the typology and location of L&amp;Q's buildings, in older cities with more difficult planning rules.</p> <p>Material factors that risk the achievement of the SPT include severe disruption to the capital expenditure programme, lack of government policy, guidance and/or regulatory support and green skills gap in the UK workforce.</p> <p><b>SPT 2: New Homes Built – 3,898 new homes built and 50% of affordable homes:</b></p> <p>Figures from the Department for (Levelling Up,) Housing and Communities show that in 2022-23, 63,605 affordable homes were delivered in England. L&amp;Q's current target equates to the building of 1.5% of the affordable homes built in England. L&amp;Q's historic performance, as outlined in section 1c, shows the target set is slightly below historic data due to the acute challenges faced by landlords operating in larger cities, as L&amp;Q does (London and Manchester), as well as an industry-wide fall of 76% compared to last year.</p> <p>DNV has reviewed a peer analysis provided by L&amp;Q and can conclude that peers' percentage of affordable homes has historically ranged from 60% to 78%. L&amp;Q's 71% in 2023 falls within this range. Due to a slow-down in L&amp;Q's development programme, reduction in funds available and strategy of L&amp;Q, this 71% is expected to sharply decline in the short and medium-term.</p> <p>Significant operational, regulatory and financial challenges in L&amp;Q's operating environment are combined with the Cost-of-Living crisis, which has been triggered by increases in fuel prices and has a materially negative impact on the customers of L&amp;Q, a more vulnerable sub-section of the UK population. The Company subsequently believes that it needs to re-prioritise its expenditure from New Homes and divert a greater level of expenditure towards existing homes, to address the strategic priorities of health and safety, investing in quality and improving services. Material factors that risk the achievement of the SPT include new regulations introduced outside the scope of current expectations, the impact of a high inflationary environment leading to increased cost of delivery and unexpected building safety developments.</p> <p><b>SPT 3: Investment in Financial Support Services – £800k invested:</b></p> <p>In 2022-23, the L&amp;Q Foundation invested £994,000 through Pound Advice services. Nearly 2,900 residents used the service, finding a £10.6M increase in additional income. L&amp;Q has been required to reduce the budgets available for Financial Support services. Finance has instead been allocated to maintaining cheaper rents and other critical services to support its customers, a typically less well-off sub-section of the UK populace. The</p>

	Use of Proceeds Bonds and Loans	Sustainability-Linked Bonds and Loans
		<p>decrease in target is due to this decrease in available funds.</p> <p>The level of investment in Financial Support Services and social investment focus varies across peers. L&amp;Q's ambition is considered appropriate despite a decrease in historical performance due to a decrease in overall available funds.</p> <p>Material factors that risk the achievement of the SPT include fluctuating levels of funding for community investment activities and low levels of resident engagement with invested organisations and activities.</p> <p>DNV can confirm that the above SPTs will help L&amp;Q in its commitment to achieving its sustainability ambitions and its social cause to supporting its vulnerable customers. DNV can confirm that each SPT is aligned, where possible, with relevant industry standards or goals.</p> <p>DNV can also conclude that L&amp;Q has set out a clear calculation methodology for all SPTs and has provided sufficient historical data where viable, and that this is in line with the bond and loan characteristics of the SLBPs and the SLLPs.</p> <p>An analysis of DNV's assessment of the SPTs is outlined in <a href="#">Schedule 4</a>, Section 2, of this SPO.</p>
<p><b>Principle Three:</b></p>	<p><b>Management of Proceeds:</b></p> <p>L&amp;Q has set out that the net proceeds or an equivalent amount from any Use of Proceeds Instrument will be managed by L&amp;Q's Treasury team and will be allocated to Eligible Projects within 24 months following receipt.</p> <p>Pending application to Eligible Projects, the net proceeds or an equivalent amount will be credited to a dedicated sub-account in L&amp;Q's accounting system with physical funds being segregated into a dedicated bank account.</p> <p>L&amp;Q has confirmed that so long as Use of Proceeds Instruments are outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Projects made during that period.</p> <p>L&amp;Q's Framework sets out that, pending full allocation, unallocated net proceeds will be managed and invested in accordance with L&amp;Q's Treasury Policy on a portfolio basis. On a best-efforts basis, these proceeds will be temporarily invested in short-term green or sustainable assets, or with counterparties that clearly demonstrate a commitment to sustainable investments.</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>The net proceeds from L&amp;Q's Sustainability Linked Instruments will be used for general corporate purposes.</p> <p>The Sustainability Linked Instruments include explicit "Structural incentives" that are nonbinary in the case of multiple targets. 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). Any interest savings from structural incentives will be allocated to the 'L&amp;Q Foundation', a charitable organisation that will utilise the proceeds for social and economic programmes and services in communities.</p> <p>The details of any coupon variation (such as a coupon step-up or down) or financial penalty (such as payment of a premium at maturity) payable to Noteholders, as well as fall-back mechanisms where appropriate, due to failure by L&amp;Q's KPIs to meet their corresponding SPT by a set Target Observation Rate will be individually outlined in the offering documentation of future issuances.</p> <p>Any variation of a Margin in any sustainability-linked instrument will be documented in the appropriate loan agreement as may be amended or restated.</p> <p>We can confirm that L&amp;Q's commitment to the Sustainability-Linked Bond and Loan characteristics is in line with the requirements of the SLBPs and the SLLPs.</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 annually reporting on the allocation of proceeds through L&amp;Q’s dedicated ‘Sustainability Finance Report’, until full allocation or as necessary thereafter in the event of material developments.</p> <p>The report will include 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>L&amp;Q has also committed to obtaining an external limited assurance report.</p> <p>L&amp;Q has also committed to annual impact reporting through its annual Sustainability Report. Subject to data availability, L&amp;Q will aim to report against metrics assessing the environmental and social impacts resulting from the Use of Proceeds Instruments. Where possible, L&amp;Q will endeavour to align with recognised industry standards such as the Sustainability Reporting Standard for Social Housing and ICMA impact reporting guidance.</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 on progress against all KPIs on an annual basis as part of its Sustainability Report, which will also be made available on L&amp;Q’s website.</p> <p>The reporting will include:</p> <ul style="list-style-type: none"> <li>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 the related impact and timing of such impact on a financial instrument performance.</li> <li>Any relevant information enabling investors to monitor the progress of the KPI.</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.</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 has committed to conducting a Second Party Opinion (SPO) on the Framework meeting the ICMA and LMA criteria. This will include an assessment of the KPIs selected, baselines and SPTs selected, and the credibility of the strategy to achieve them.</p> <p>It is in DNV’s opinion that L&amp;Q has appropriately committed to reporting, and this is in line with the requirements of the criteria as set out under the SLBPs and the SLLPs.</p>
<p><b>Principle Five:</b></p>	<p>N/A</p>	<p><b>Verification (Post-issuance):</b></p> <p>L&amp;Q is committed to annually reporting on all KPIs in L&amp;Q’s annual Sustainability Report, which will be available on L&amp;Q’s website. The Sustainability Report is verified by external auditors.</p> <p>The performance of each KPI against its corresponding SPT at a relevant target observation date will be verified by third-party auditors and reflected on an Independent Limited Assurance or Verification Statement, which will be made publicly available on L&amp;Q’s website and communicated in writing to the Principal Paying Agent and Noteholders.</p> <p>DNV confirms L&amp;Q’s commitment to verification is in line with the requirements within the SLBPs and the SLLPs.</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 2024 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) 2023; Sustainability Bonds within the Sustainability Bond Guidelines (SBG) 2021; Green Loans within the Green Loan Principles (GLP) 2023; and Social Loans within the Social Loan Principles (SLP) 2023.

It is also aligned with the stated definition of Sustainability-Linked Bonds within the Sustainability Linked Bond Principles (SLB) 2023, 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 2023, which is to *"facilitate and support environmentally and socially sustainable economic activity and growth"*, thereby *"promoting sustainable development more generally"*.

**for DNV Supply Chain and Product Assurance Services UK Limited**

London, 23 July 2024



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**About DNV**

Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 14,800 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

Eligible Category (aligned with the Sustainability Reporting category Standard for Social Housing)	ICMA/LMA Green Project Category	Description of activities (non-exhaustive list)	Specific measures L&Q may report on	Material SDG Alignment
<p><b>Climate change: investments and/or expenditures that prevent and mitigate the risk of climate change.</b></p>	<p>Green Buildings</p>	<p>Development of green residential buildings which meet at least one of the following regional, national or internationally recognised standards:</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>	<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 or certifications.</li> <li>• Number and proportion (%) of new homes with an energy performance certificate (EPC) rating in band B or above (%).</li> </ul>	

	Renewable energy	Installation of renewable energy systems and procurement of energy from renewable sources operating at lifecycle emissions of less than 100gCO <sub>2</sub> /kWh.	<ul style="list-style-type: none"> <li>• Total capacity of renewable energy installations (kW).</li> <li>• Proportion of purchased energy from renewable energy sources (%).</li> </ul>	
	Energy efficiency	<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>• An improvement in energy efficiency.</li> <li>• An uplift in EPC rating by at least two bands.</li> <li>• Delivery of energy savings assessments in residential and advice and engagement with residents to reduce energy usage through behavioural change.</li> </ul>	<ul style="list-style-type: none"> <li>• Number and proportion (%) of homes within each EPC band.</li> <li>• Number and proportion (%) of homes that are rated at EPC band C or above or meeting space heating demand target.</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.</li> </ul>	
	Clean transportation	Development and promotion of clean transportation access for employees and residents by using low-emissions fleet vehicles with direct tailpipe emissions of below 50gCO <sub>2</sub> /km until 2025, and zero emissions thereafter, and installing electric vehicle charging points and cycling infrastructure.	<ul style="list-style-type: none"> <li>• Number and proportion (%) of low emissions fleet vehicles access for employees and residents by using low.</li> <li>• Number of installed electric vehicle charging points.</li> <li>• Number of secure cycle parking spaces provides.</li> </ul>	

<p><b>Resource management: investments and/or expenditures that contribute to the sustainable management of natural resources.</b></p>	<p>Pollution prevention and control</p>	<p>Undertake activities that contribute substantially to waste prevention, re-use and recycling, and the efficient use of natural resources, This will be done through reducing the amount of waste produced on the Company’s construction and planned maintenance projects, at its offices and from its residents’ homes, increasing the proportion of waste 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>	<ul style="list-style-type: none"> <li>• Construction waste intensity (tonnes per 100 sqm completed or under construction).</li> <li>• Waste recycling rate (%) and waste diverted from landfill (%)</li> <li>• Office waste intensity (tonnes per average daily staff attendance).</li> <li>• Office waste recycling rate (%) and office waste diverted from landfill (%).</li> </ul>	
	<p>Sustainable water and wastewater management</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>	<ul style="list-style-type: none"> <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> </ul>	
	<p>Eco-efficient and/ or circular economy adapted products, production technologies and processes</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>	<ul style="list-style-type: none"> <li>• Average annual Modern Methods of Construction (“MMC”) utilisation rate as specified in L&amp;Q’s MMC roadmap (%).</li> </ul>	
<p><b>Ecology: investments and/ or expenditures that promote ecological sustainability</b></p>	<p>Terrestrial and aquatic biodiversity conservation</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>	<ul style="list-style-type: none"> <li>• Average % Biodiversity Net Gain achieved on new developments.</li> <li>• Number of biodiversity enhancement projects delivered to estates.</li> </ul>	

			<ul style="list-style-type: none"> <li>• % outdoor space with enhanced biodiversity indicators.</li> </ul>	
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Eligible Category (aligned with the Sustainability Reporting Standard for Social Housing)	ICMA/LMA Social Project Category	Description	Specific measures L&Q may report on	Material SDG Alignment	Target Population
<b>Affordability and security: investments and/or expenditures that increase the provision of affordable and secure housing.</b>	Affordable housing	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).	<ul style="list-style-type: none"> <li>• Number of new homes under development and proportion (%) of these deemed to be affordable.</li> <li>• Ratio of average rent to average market rent by tenure.</li> </ul>		People who are unemployed, underserved, marginalised or living below the poverty line
<b>Resident support: investments and/or expenditures that support residents and the local community.</b>	Access to essential services	Enhancement of resident access to education, vocational training, health, wellbeing, and financial support services provided by the L&Q Foundation and L&Q Living.	<ul style="list-style-type: none"> <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> </ul>		Vulnerable groups, people who are unemployed or living below the poverty line, people with disabilities
<b>Placemaking: investments and/or expenditures that support residents and the wider local</b>	Employment generation	Delivery of programmes designed to prevent and/or alleviate unemployment, through the provision of job brokerage services, training and	<ul style="list-style-type: none"> <li>• Number of people supported in to sustainable employment.</li> <li>• Number of traineeships or apprenticeships offered.</li> </ul>		Unemployed, underserved, undereducated, marginalised

<p>community through placemaking.</p>		<p>one-to-one support with CV writing and interview preparation.</p>			<p>populations and vulnerable youth.</p>
	<p>Socioeconomic advancement and empowerment</p>	<p>Supporting equitable access to and control over resources and opportunities and equitable participation and integration into market and society, including reduction of income equality.</p> <p>The development of internship and training programmes and procurement from and/or awarding grants to local groups, charities, SMEs woman-owned and/or minority-owned enterprises.</p>	<ul style="list-style-type: none"> <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.</li> <li>• Number of community organisations supported and value (£) of investment.</li> </ul>		<p>Excluded or marginalised communities, people who are underserved, people with disabilities, women and gender minorities.</p>

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

Key performance indicator (KPI)	Short-term sustainability performance targets (SPT)	Rationale	Industry alignment, or UK environmental regulation
<b>KPI 1: Energy Efficiency</b> Average SAP score	SPT: 72.8 by 2026 (corresponds to low EPC band C rating)	Energy-related emissions from residents make up 43% of L&Q's total emissions. Reduction of energy consumption will deliver environmental benefits linked to climate change.	Aligned with Government investment aimed at improving energy efficiency of UK housing stock e.g. Social Housing Decarbonisation Fund (SHDF).  Most peers aim to achieve EPC C rating or above for all their homes by 2030 latest.
<b>KPI 2: New Homes Built</b> New homes built and the % of affordable homes <sup>1</sup>	SPT 1: build 3,898 new homes by 2026.  SPT 2: of which 50% will be affordable by 2026.	The UK is experiencing a shortage of affordable homes, the government is failing to meet its target of building 300,000 homes yearly.	Aligned with the Government's goal to deliver 300,000 homes yearly to address the Housing Crisis.  The peers' percentage of new homes delivered which were affordable in 2022-23 ranged from 60% to 78%.
<b>KPI 3: Investment in Financial Support Services</b> £ invested in financial support services	SPT: £800K by 2026.	L&Q is committed to providing residents, who are economically disadvantaged, with financial capability support to enable them to gain additional income.	Other peers deliver financial support services to their customers, reaching a range of 500 to 6,000 customers through their initiatives.

<sup>1</sup> Social Homes which align with the definition by the Housing & Regeneration Act (2008).

## SCHEDULE 3: USE OF PROCEEDS FINANCIAL INSTRUMENTS – L&Q-SPECIFIC SUSTAINABILITY FINANCE 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 into one of the following categories, as defined by the GBPs, SBPs, SBGs, GLPs and SLPs:</p> <ul style="list-style-type: none"> <li>• Use of Proceeds Bond/Loan.</li> <li>• Use of Proceeds Revenue Bond/Loan.</li> <li>• Project Bond/Loan.</li> <li>• Securitised Bond/Loan.</li> </ul> <p>Green/Social Bonds/Loans are defined as any type of Bond/Loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible projects. Green/Social Bonds/Loans must align with the four components of the GBPs and GLPs.</p>	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>The Framework allows the issuing of "Use of Proceeds Instruments", which it defines as various funding instruments including but not limited to Green, Social or Sustainability bonds, private placements, floating rate notes, commercial paper, bank facilities and leases to finance or refinance Eligible Green and/or Social Projects. The specific type of Use of Proceeds Instruments will need to be assessed individually at every issuance.</p> <p>The Framework also enables sustainability-linked financing (see <a href="#">Schedule 4</a>).</p> <p>For re-financing, L&amp;Q has set a look-back period of 36 months from the issuance date of any Use of Proceeds instrument under the Framework; as well as a minimum share of 70% of financing versus refinancing over the same time period.</p>
1b	Green and Social Project Categories	<p>The cornerstone of a Green/Social Bond/Loan is the utilisation of the proceeds which should be appropriately described in the framework and the legal documentation for the security.</p>	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> <li>• L&amp;Q Future Shape: five-year corporate strategy (2021-2026).</li> <li>• L&amp;Q Social Value Report (2023).</li> <li>• Financial statements (2023).</li> <li>• L&amp;Q Foundation (<a href="#">online</a>).</li> <li>• L&amp;Q Living (<a href="#">online</a>).</li> </ul>	<p>L&amp;Q intends to use the net proceeds from Use of Proceeds instruments issued under the Framework to exclusively finance projects/assets from the following ICMA/LMA Eligible Categories:</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>• Eco-efficient and/ or Circular Economy-adapted products, production technologies and processes.</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> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>• Employment Generation.</li> <li>• Socioeconomic Advancement and Empowerment.</li> </ul> <p>DNV can conclude that these projects 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>
1c	Green and Social benefits	All designated Green/Social project categories should provide clear environmental and/or social benefits, which, where feasible, will be quantified or assessed by the issuer.	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> <li>• L&amp;Q Future Shape: five-year corporate strategy (2021-2026).</li> <li>• L&amp;Q Social Value Report (2023).</li> <li>• Financial statements (2023).</li> <li>• L&amp;Q Foundation (<a href="#">online</a>).</li> <li>• L&amp;Q Living (<a href="#">online</a>).</li> </ul>	<p>L&amp;Q described the types of Eligible Green and Social Projects that it intends to finance under the Framework.</p> <p>For Green Projects, L&amp;Q has outlined eligibility criteria aimed at making its properties more energy and resource-efficient, as well as reducing the embodied carbon within its construction activity and projects. These criteria will also help L&amp;Q improve the environmental sustainability of its properties, as well as reduce its overall absolute GHG emissions, waste and resource consumption.</p> <p>For Social Projects, L&amp;Q has included eligibility criteria regarding the availability of social housing, as well as socioeconomic advancement and access to services of communities living in its properties.</p> <p>L&amp;Q has prioritised projects that will support its progress towards delivering on the UN SDGs, and has mapped all Eligible Project Categories against the relevant SDGs in which they will contribute towards.</p> <p>L&amp;Q is committed to following best market practices and, where possible, it has aligned its Projects' eligibility criteria to national and international standards in the housing sector, such as BREEAM, the Home Quality Mark, EPC ratings, the Modern Methods of Construction ("MMC"), or the Housing and Regeneration Act 2008.</p> <p>L&amp;Q has also aligned its Social Eligible Categories with the Sustainability Reporting Standard for Social Housing, a voluntary disclosure framework published in 2020 that provides guidance to UK housing providers for reporting on their ESG performance.</p> <p>To make the benefits quantifiable, L&amp;Q has also provided a list of potential metrics for each Eligible Project category; these are listed in Schedule 1.</p> <p>DNV can conclude that the Framework appropriately describes the proposed utilisation of proceeds, whilst the specificities of each issuance</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				will need to be further assessed on an individual basis, and that future issuances under the Framework will deliver clear social and/or environmental benefits.
1d	Target Population	All designated social projects should be dedicated to one or more vulnerable target populations.	<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 2024.</li> </ul>	<p>L&amp;Q's Framework sets out that all expenditures from any issuances aimed at Eligible Social Project categories (Affordable housing, Access to essential services, Employment generation and Socioeconomic advancement and empowerment) will target vulnerable populations. L&amp;Q has also mapped each of the Social Eligible Project categories to the target populations they refer to, as outlined in <a href="#">Schedule 1</a>.</p> <p>DNV can confirm this is in line with the requirements of the SBPs and the SLPs.</p>

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	The issuer of a Green/Social 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 2024.</li> </ul>	<p>Eligible Projects will be selected by a dedicated ESG Financing Panel. The ESG Financing Panel sits within the remit of the Senior Leadership Group (SLG) and is chaired by an Executive Director or delegated to the Chair of SLG, and formed by senior members of the Finance, Property Services, Strategy &amp; Planning, L&amp;Q Foundation and Development teams.</p> <p>The Panel will meet at least on a semi-annual basis, and is responsible for the governance of this Framework including:</p> <ul style="list-style-type: none"> <li>The documentation of the evaluation and selection process to facilitate external verification (if required).</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.</li> <li>The tracking and reporting of net proceeds.</li> </ul> <p>The decision to approve Eligible Categories and Eligible Projects will consider the following 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>• Compliance with any applicable environmental law, social standards and regulations (inclusive of those issued by the Regulator of Social Housing).</li> <li>• Identification and management of potentially material ESG risks associated with projects, via the Group's risk management system.</li> <li>• Where feasible, the ability to quantify, measure and report on Eligible Projects.</li> </ul> <p>L&amp;Q's portfolio of Eligible Projects may be replenished as underlying loans are repaid, non-compliant projects are removed, and additional Eligible Projects are identified and reallocated.</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. We can also confirm that they meet the requirements as set out under the GBPs, SBPs, SBGs, GLPs and of the SLPs.</p>
2b	Issuer's environmental, social and governance framework	In addition to the information disclosed by an issuer on its Bond/Loan process, criteria and assurances, Bond/Loan investors/lenders may also take into consideration the quality of the issuer's overall framework and performance regarding sustainability.	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> <li>• L&amp;Q Future Shape: our five-year corporate strategy (2021-2026).</li> <li>• L&amp;Q Social Value Report (2023).</li> <li>• Financial statements (2023).</li> <li>• L&amp;Q Foundation (<a href="#">online</a>).</li> <li>• L&amp;Q Living (<a href="#">online</a>).</li> </ul>	<p>L&amp;Q's sustainability commitment to "generate value for society, safeguard the environment and operate the business in a transparent and ethical manner", which is also highlighted in the Framework, is embedded in L&amp;Q's 'Future Shape' five-year Corporate Strategy, running from 2021 to 2026.</p> <p>This 'Future Shape' strategy lays out five key 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.</li> <li>• Finance: the finance that L&amp;Q manages and invests.</li> </ul> <p>For each pillar, the Future Shape Strategy lays out a vision, strategic priorities, working groups in charge of the delivery, KPIs to measure progress and 2021/22 and 2025/26 targets for each selected KPI.</p> <p>The Strategy's overall plan and execution will be overseen by the following boards and committees:</p> <ul style="list-style-type: none"> <li>• Resident Service Board.</li> <li>• Development Committee.</li> </ul>

				<ul style="list-style-type: none"> <li>• Audit and Risk Committee.</li> <li>• Executive Group.</li> <li>• THT Group Board.</li> <li>• L&amp;Q Living Group Board.</li> <li>• L&amp;Q Group Board.</li> </ul> <p>L&amp;Q has also aligned its enterprise risk management, internal controls and audit activity to support and assure the successful delivery of the Strategy.</p> <p>The eligibility criteria for Green Project categories outlined in the Framework align with L&amp;Q's identified focus areas for environmental impact management: 'Climate Action', 'Resource Efficiency' and 'Healthy Places'. Similarly, eligibility criteria for Social Project categories align with L&amp;Q's focus areas of 'Providing affordable and secure homes', 'Community investment' and 'Supporting residents'.</p> <p>In being a non-profit charitable organisation, L&amp;Q is committed to reinvesting all of its profits into the implementation of social and economic programmes and services delivered by the L&amp;Q Foundation and L&amp;Q Living. Currently, L&amp;Q Living's dedicated care and support service houses more than 10,000 people across London and the South-East.</p> <p>DNV is of 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.	Evidence reviewed: <ul style="list-style-type: none"> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>L&amp;Q has set out that the net proceeds or an equivalent amount from any Use of Proceeds Instrument issued under this Framework will be managed by L&amp;Q's Treasury team. Net proceeds will be allocated within 24 months of receipt to one or more Eligible Projects, as recorded in L&amp;Q's bespoke Sustainability Finance Projects Register. The Register will be annually reviewed by L&amp;Q's ESG Financing Panel and will also be used to keep track of the net proceeds, which will be monitored on a portfolio basis.</p> <p>Pending application to Eligible Projects, the net proceeds or an equivalent amount will be credited to a dedicated sub-account in L&amp;Q's accounting system with physical funds being segregated into a dedicated bank account.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				DNV can conclude that L&Q has a formal internal process to track the use of proceeds.
3b	Tracking procedure	So long as the Bonds/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 2024.</li> </ul>	L&Q has confirmed that so long as Use of Proceeds Instruments are outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Projects made during that period.  DNV can conclude that L&Q has a process in place for tracking the balance of the proceeds, considering 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 Treasury Policy.</li> <li>L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	L&Q's Framework sets out that, pending full allocation, unallocated net proceeds will be managed and invested in accordance with L&Q's Treasury Policy on a portfolio basis. On a best-efforts basis, these proceeds will be temporarily invested in short-term green or sustainable assets, or with counterparties that clearly demonstrate a commitment to sustainable investments.  DNV can conclude that L&Q has a process for temporarily managing unallocated proceeds.

#### 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.	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 2024.</li> <li>L&amp;Q Fair Pay Report (2023).</li> <li>L&amp;Q Social Value Report (2023).</li> <li>Financial statements (2023).</li> <li>L&amp;Q Foundation (<a href="#">online</a>).</li> <li>L&amp;Q Living (<a href="#">online</a>).</li> </ul>	L&Q has committed to annually reporting on the allocation of proceeds through L&Q's dedicated 'Sustainability Finance Report', until full allocation or as necessary thereafter in the event of material developments.  This report will incorporate the following: <ul style="list-style-type: none"> <li>All Use of Proceeds Instruments issued to date.</li> <li>Insights into the total amount of the investments and expenditures in each Eligible Category including a description of Eligible Projects financed and material variations.</li> <li>The balance of unallocated cash and/or cash equivalent</li> <li>The share of financing versus refinancing for each Eligible Category.</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>L&amp;Q has committed to include an annual impact report within its annual Sustainability Report and obtain external limited assurance on the reported impact. Subject to data availability, L&amp;Q will report against selected metrics assessing the environmental and social impacts resulting from the Use of Proceeds Instruments. Where possible, L&amp;Q will endeavour to align with recognised industry standards such as the Sustainability Reporting Standard for Social Housing and ICMA impact reporting guidance.</p> <p>DNV can confirm that L&amp;Q has committed to allocation and impact reporting on an annual basis in the Framework and that this is aligned with the requirements as set out by the GBPs, SBPs, SBGs, GLPs and the SLPs.</p>

## 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 Report 2022/23 <a href="#">(online)</a>.</li> <li>L&amp;Q Financial Statements 2022 <a href="#">(online)</a>.</li> <li>L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>It is our opinion that L&amp;Q has set three KPIs that are material to the business and are aligned with the Group's commitment to lowering its impact on the environment, with a specific focus on climate action, resource efficiency and healthy places, as well as a focus on social impact, including providing affordable and secure homes, delivering community investment and supporting residents.</p> <p><b>KPI 1: Energy Efficiency - Average SAP score</b></p> <p>Standard assessment procedures (SAP) ratings are the methodology used by the UK government to estimate the performance of homes. The ratings range from 0-100 and are categorised into seven grades from A to G, where A is best at saving energy (score of 91 to 100). By calculating the average score of SAP ratings L&amp;Q will ensure high energy efficiency across its buildings. Average score was chosen over a set rating due to the high costs some older buildings would have to face for being refurbished.</p> <p>Energy efficiency is a core and strategic topic for L&amp;Q since it delivers a social benefit, as part of the reduction of energy bills for tenants, and an environmental benefit, reducing energy-related GHG emissions. It also impacts L&amp;Q's success by being a source of financial benefits for its customers. This topic is fully within the control of L&amp;Q.</p> <p><b>KPI 2: New Homes Built - New homes built and % of affordable homes</b></p> <p>Building new homes is essential to meet the high housing demand within the UK, the UK's Housing Crisis sees higher demand than availability of homes. The National Housing Federation predicts that by 2045 social housing waiting lists are expected to grow to 1.8 million. Affordable homes cater to the lower-income section of the population, whose needs are perhaps not met by the private market.</p> <p>Building and delivering new homes, especially to the less advantaged, is the core of L&amp;Q's business model and strategy, this is also a social need which is relevant and material for L&amp;Q to address in view of the UK's Housing Crisis and the UK's target to build 300,000 affordable homes yearly by 2025.</p> <p><b>KPI 3: Investment in Financial Support Services - £ invested</b></p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>Through the Pound Advice service, L&amp;Q will fund trained experts to offer residents free and confidential advice to help with budgeting, debt and benefits.</p> <p>The L&amp;Q Foundation aims to create positive, lasting change for residents, to help them live healthy, independent lives in thriving communities. Supporting L&amp;Q residents to increase their incomes and financial resilience is a key strategic pillar for the Foundation. Within L&amp;Q's strategy, collaborating to enable sustainable communities is a key focus, the L&amp;Q Foundation enables the achievement of this goal at a local level.</p> <p>Based on the work undertaken, DNV can confirm that the KPIs are relevant, core, and material to the Group's overarching corporate and sustainability business strategy. The rationale and process for the KPI selection, as well as the definition, measurability and verifiability, are clearly defined and presented within the Framework. The KPIs set out by L&amp;Q are also consistent with the SLBPs and the SLLPs.</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 Report 2022/23 <a href="#">(online)</a>.</li> <li>• L&amp;Q Financial Statements 2022 <a href="#">(online)</a>.</li> <li>• L&amp;Q Social Value Report (2023).</li> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>In our opinion, the KPIs selected by L&amp;Q are measurable, quantifiable, and can be benchmarked against industry standards, UK regulations, peers operating in the same sector, and/or externally verified performance over the past 3 years.</p> <p>The KPIs summarised below are either in alignment with industry standards, UK environmental objectives and L&amp;Q's overarching strategy:</p> <p><b>KPI 1: Energy Efficiency - Average SAP score</b></p> <p>L&amp;Q measures SAP ratings of its managed portfolio as part of its sustainability strategy. Average SAP and EPC scores can be compared to peers' performance and ambition.</p> <p>Average SAP ratings are measured and reported on L&amp;Q's sustainability report:</p> <ul style="list-style-type: none"> <li>• 2021 average SAP score: 71.67.</li> <li>• 2022 average SAP score: 71.76.</li> <li>• 2023 average SAP score: 72.08.</li> </ul> <p><b>KPI 2: New Homes Built - New homes built and % of Affordable Homes</b></p> <p>This includes new private homes for rent and sale that are handed over during the reporting period. Within L&amp;Q's portfolio, the percentage of social homes will be counted. These are common metrics within the sector and can be compared to peers.</p> <ul style="list-style-type: none"> <li>• <b>2021</b> - 2,699 homes built of which 1,556 (58%) were affordable.</li> <li>• <b>2022</b> - 4,157 homes built of which 2,532 (61%) were affordable.</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>• <b>2023</b> - 4,047 homes built of which 2,892 (71%) were affordable.</li> </ul> <p><b>KPI 3: Investment in Financial Support Services - £ invested.</b></p> <p>The Foundation’s contribution to financial support service by Pound Advice is reported on the sustainability, the number of residents supported as well as the additional income in £ is calculated. Both metrics are commonly reported across peers and can be used for comparison.</p> <ul style="list-style-type: none"> <li>• <b>2021</b> - £3.4M total funding investment in local community organisations.</li> <li>• <b>2022</b> - £3.4M total funding investment in local community organisations.</li> <li>• <b>2023</b> - £3.3M total funding investment in local community organisations.</li> </ul> <p>In 2022 the Foundation invested £994,000 by contracting Pound Advice services.</p> <p>DNV concludes that the measurability of all three KPI’s are clearly defined, and information on this will be published in the Group’s annual Sustainability Report. DNV can also report that L&amp;Q has provided three years of historical data for all three KPIs. A benchmarking exercise has also been conducted to assess L&amp;Q’s targets and provided to DNV, as part of the evidence reviewed to inform this opinion that the KPIs are measurable, traceable and assurable.</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>• Housing &amp; Regeneration Act (2008).</li> <li>• L&amp;Q Sustainability Report 2022/23 (<a href="#">online</a>).</li> <li>• L&amp;Q Financial Statements 2022 (<a href="#">online</a>).</li> <li>• L&amp;Q Social Value Report (2023).</li> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>It is DNV’s opinion that L&amp;Q has provided and included the applicable scope, parameters, and calculation methodologies, where relevant. We can also confirm for all three KPI’s are in line with the SLBPs and SLLPs:</p> <p><b>KPI 1: Energy Efficiency - Average SAP score</b></p> <p>SAP ratings are based on EPC ratings and include all buildings L&amp;Q has management control over, where these are unknown, or EPC ratings are not updated appropriately, modelling may be used to estimate the energy efficiency or improvement in energy efficiency.</p> <p><b>KPI 2: New Homes Built - New homes built and % of Affordable Homes</b></p> <p>The scope of this metric will cover all new private homes for sale and for rent and the percentage of social housing. L&amp;Q’s primary geographical focus will cover London and Manchester. The data is verified by third parties.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p><b>KPI 3: Investment in Financial Support Services - £ invested</b></p> <p>The scope of the investments will only cover funds invested in Pound Advice for Financial Inclusion services to residents, counting the number of residents supported and the additional income created.</p> <p>DNV confirms that the scope, parameters, and calculation methodology for the three KPIs are clearly defined within the Framework, and that they meet the criteria as set out by the SLBPs and the SLLPs.</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 issuer's 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 Report 2022/23 (<a href="#">online</a>).</li> <li>L&amp;Q Financial Statements 2022 (<a href="#">online</a>).</li> <li>L&amp;Q Social Value Report (2023)</li> <li>L&amp;Q Sustainability Finance Framework 2024.</li> <li>L&amp;Q Calibration of SPTs updates 2024.</li> </ul>	<p>After reviewing the evidence provided, we can confirm that the SPTs selected for the three KPI's outlined in 1a are ambitious, realistic and meaningful, i.e. they will help L&amp;Q to address the most material social and environmental challenges, which are of concern to its stakeholders, and the UK's housing sector more widely.</p> <p>The ambition and meaningfulness of the SPTs for each of the three KPIs are outlined below:</p> <p><b>SPT 1: Energy Efficiency - Average SAP score of 72.8 by 2026</b></p> <p>L&amp;Q set a 2024 Sustainability Performance target to reach an average SAP score of 72 or above. A score of 72.8 exceeds the Sustainability target, and in the long-term, L&amp;Q aims to align to its Net Zero strategy. By 2030 L&amp;Q aims to achieve a minimum EPC of C for all homes, and to continue to increase its Average SAP. The improvement will reflect better data quality, energy efficiency measures implemented until 2026 and a higher number of more energy efficient homes being handed over through their development pipeline.</p> <p>Relative to its peers, L&amp;Q has a high number of homes that more than one hundred years old and/or are listed. This makes obtaining rights for retrofitting more difficult. As such, L&amp;Q is prohibited from making some of the key environmental changes within its ambition. Subsequently, maintaining the level of SAP increase each year becomes less realistic.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>It is DNV's view that while the average SAP scores do not appear ambitious, it is stretching for L&amp;Q.</p> <p><b>SPT 2: New Homes Built – 3,898 new homes built and 50 % of affordable homes</b></p> <p>Figures from the Department for (Levelling Up,) Housing and Communities show that in 2022-23, 63,605 affordable homes were delivered in England. L&amp;Q's current target equates to the building of 1.5% of the affordable homes built in England. L&amp;Q's historic performance as outlined in section 1c shows the target set is slightly below historic data due to the acute challenges faced by landlords operating in larger cities, as L&amp;Q does (London and Manchester) as well as an industry-wide fall of 76% compared to last year.</p> <p><b>SPT 3: Investment in Financial Support Services – £800k invested</b></p> <p>In 2022-23, the L&amp;Q Foundation invested £994,000 through Pound Advice services. Nearly 2,900 residents used the service, finding a £10.6M increase in additional income. L&amp;Q has been required to make a reduction in budgets available for Financial Support services. Finance has instead been allocated to maintaining cheaper rents and other critical services. The decrease in target is due to a decrease in available funds.</p> <p>DNV can confirm that the above SPTs will help L&amp;Q in its commitment to achieving its sustainability ambitions.</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>• G15: "Why London Housing providers face more acute challenges than elsewhere" Research briefing (2024).</li> <li>• L&amp;Q Average SAP SPT.</li> <li>• L&amp;Q peer benchmarking.</li> <li>• L&amp;Q Investment in Financial Inclusion SPT Evidence.</li> <li>• L&amp;Q Sustainability Report 2022/23 (<a href="#">online</a>).</li> <li>• L&amp;Q Financial Statements 2022 (<a href="#">online</a>).</li> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>Having reviewed the evidence provided, we can confirm that the SPTs represent an improvement in the respective KPIs (ref 2a), that there is a predefined timeline set for 2026 and that the SPTs are above a "Business as Usual" trajectory and aligned with their sustainability strategy (ref 2a). In addition, L&amp;Q have outlined a peer performance benchmark (ref 1b) and the potential factors which risk the achievement of the SPTs. These are outlined for each KPI below:</p> <p><b>SPT 1: Energy Efficiency - Average SAP score of 72.8 by 2026</b></p> <p>A comparison of average SAP is not directly possible due to the diverse nature of the housing stock across peers, where the age and typology of stock influences the cost of energy efficiency implementation measures. Most peers' (4 out of 5) SAP average scoring is 73%. L&amp;Q's historical average of 71 and 72% is overall slightly lower due to the typology and location of L&amp;Q's buildings, this is a result of the business strategy which targets buildings with low energy efficiency.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
			<ul style="list-style-type: none"> <li>L&amp;Q Calibration of SPTs updates 2024.</li> </ul>	<p>Material factors that risk the achievement of SPTs include severe disruption to the capital expenditure programme, lack of government policy, guidance and/or regulatory support and green skills gap in the UK workforce.</p> <p>In the construction of the SPTs, L&amp;Q needed to take into account the reliability of the benchmark as an indicator of future performance. While the SPT may appear unambitious, L&amp;Q has confirmed that the following is true which impacts the ambition and achievability of these targets:</p> <ul style="list-style-type: none"> <li>2023/24 saw increases in the average SAP, driven by the high number of handovers in this year, with 96% EPC B or above. Handover numbers in future years are expected to be lower.</li> <li>A large number of PAS 2035 standard assessments took place in 2023/24 to support the retrofit of energy-efficient technologies. This has led to an uplift in SAP data held. The impact of this is likely to decrease in the coming years and will play a smaller role in increasing the SAP average.</li> <li>Energy performance can be a significant challenge in the locations that L&amp;Q operate and with the kind of stock L&amp;Q has. L&amp;Q finds itself managing some old properties which can be very expensive with barriers to upgrade.</li> </ul> <p>L&amp;Q has confirmed that it will be scaling up its retrofit programme to deliver in line with the Social Housing Decarbonisation Fund commitments. This presents a number of different delivery challenges to the PAS assessments, including higher material and supply chain costs.</p> <p><b>SPT 2: New Homes Built – 3,898 new homes built and 50 % of affordable homes</b></p> <p>DNV has reviewed a peer analysis provided by L&amp;Q and can conclude that peers' percentage of affordable homes range from 60% to 78%. L&amp;Q's 71% in 2023 falls within this range. Due to a slow-down in the development programme and strategy of L&amp;Q, this 71% is expected to decline severely in the short and medium term. Significant operational, regulatory, and financial challenges in L&amp;Q's operating environment is combined with the Cost-of-Living crisis, which has been triggered by increases in fuel prices, has a materially negative impact on the customers of L&amp;Q, a more vulnerable sub-section of the UK population. The Company subsequently believes that it needs to re-prioritise its expenditure from New Homes and divert a greater level of expenditure towards existing homes, to address the strategic priorities of health and safety, investing in quality and improving services.</p> <p>DNV notes that the G15 revealed that members are on track to start building just 1,769 homes in London in the year 2024/25, a fall of 76% compared with the 7,363 started in 2022/23, which applied across peers shows that the level of</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>housebuilding and affordable house building in the last 2 to 3 years is not reflective of future years.</p> <p>Material factors that risk the achievement of SPTs include new regulations introduced outside the scope of current expectations, as well as price, availability and access to land which affects the cost of building new homes.</p> <p><b>SPT 3: Investment in Financial Support Services – £800k invested.</b></p> <p>The level of investment in Financial Support Services across peers ranges widely and peers’ social investment focus vary widely. L&amp;Q’s ambition is considered appropriate despite a decrease in historic performance due to a decrease in overall available funds as stated in 2a.</p> <p>Material factors that risk the achievement of SPTs include fluctuating levels of funding for community investment activities and low-level of resident engagement with invested organisations and activities.</p> <p>DNV can confirm that each SPT is aligned with, where possible, to relevant industry standards or goals. We can also conclude that L&amp;Q has set out a clear calculation methodology for all SPTs, that it has provided sufficient historic data where viable, and that this is in line with the bond and loan characteristics of the SLBPs and the SLLPs. In this Framework, L&amp;Q has faced issues with the evolving landscape of its core commercial functions. As a social housing provider, it needs to prioritise the welfare of its most vulnerable customers which has been put in greater jeopardy as the impacts of the Cost-of-Living crisis have been prevalent among its customers.</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 KPIs</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 targets or to recognised Best-Available-Technologies or other proxies.</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>• G15: “Why London Housing providers face more acute challenges than elsewhere” Research briefing (2024).</li> <li>• L&amp;Q Average SAP SPT.</li> <li>• L&amp;Q peer benchmarking.</li> <li>• L&amp;Q Investment in Financial Inclusion SPT Evidence</li> <li>• L&amp;Q Sustainability Report 2022/23 (<a href="#">online</a>).</li> <li>• L&amp;Q Financial Statements 2022 (<a href="#">online</a>).</li> <li>• L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>DNV can confirm that L&amp;Q has provided at least three years of historic performance data for the SPTs as stated in 1b and have been benchmarked as stated in 2b.</p> <p>L&amp;Q has also undertaken peer analysis of six peers operating in similar circumstances to contextualise L&amp;Q’s own performance. It has been concluded that the benchmarking exercises, while useful, is not entirely indicative of future performance due to external events having a detrimental impact on the tenants, many of whom are in vulnerable positions. As such L&amp;Q is in a position where it needs to prioritise key services. DNV has also reviewed L&amp;Q’s Business as Usual trajectories and interviewed Senior Directors within L&amp;Q.</p> <p>DNV can confirm that the benchmarking approaches are in line with the requirements of the SLBPs and the SLLPs, while the target setting approaches may appear unambitious due to the historical data are stretching under the conditions L&amp;Q and L&amp;Q’s customers are in. DNV also notes that the benchmarking included data which showed unusually high levels of turnovers and housebuilding numbers which are much more difficult to replicate moving forward.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
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>G15: “Why London Housing providers face more acute challenges than elsewhere” Research briefing, 2024</li> <li>L&amp;Q Average SAP SPT.</li> <li>L&amp;Q Investment in Financial Inclusion SPT Evidence.</li> <li>L&amp;Q Sustainability Report 2022/23 <a href="#">(online)</a>.</li> <li>L&amp;Q Financial Statements 2022 <a href="#">(online)</a>.</li> <li>L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>DNV can confirm the relevant disclosures on target setting are appropriately described within the Framework, will be achieved within a predefined timeline, and that L&amp;Q has committed to disclosing its progress in its annual reporting. The timelines set are clearly referenced for all three KPIs with target observation dates on 31st March 2025 and 31st March 2026.</p> <p>DNV notes that for each KPI 2023 was selected to reflect the most recent available data. DNV also notes that significant changes to the market have and will continue to influence the performance and ambition of the targets as stated in 2a.</p> <p>The factors and circumstances for recalculation/adjustment shall be set out further in the relevant documentation of the sustainability-linked instruments.</p> <p>L&amp;Q may also review this Sustainability-Linked Financing Framework in the context of any recalculation/adjustment made in accordance with the terms and conditions of the SLBs and SLLs.</p> <p>L&amp;Q has confirmed that significant changes may include:</p> <ul style="list-style-type: none"> <li>Structural changes to L&amp;Q which includes acquisitions or mergers/de-merger. Organic changes to the Group will not trigger a recalculation.</li> <li>Methodological changes for the calculation of any KPI to reflect changes in the market practice, relevant market standards, which, have significant impacts on any SPT or any KPI.</li> <li>Regulatory changes including amendments to applicable laws, regulations, rules, guidelines, and policies relating to the business of the Group, including transition plan disclosure regulation.</li> <li>In case of a data error, or if a number of cumulative errors that together are significant.</li> </ul> <p>We can also confirm that L&amp;Q has outlined the key factors for the achievement of the SPTs in 2b.</p> <p>DNV can confirm the target-setting disclosure process outlined by L&amp;Q is aligned with the requirements of the SLBPs and the SLLPs.</p>

### 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 2024.</li> </ul>	<p>The net proceeds from L&amp;Q's Sustainability Linked Instruments will be used for general corporate purposes.</p> <p>The Sustainability Linked Instruments include explicit "Structural incentives" that are nonbinary in the case of multiple targets. 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). Any interest savings from structural incentives will be allocated to the 'L&amp;Q Foundation', a charitable organisation that will utilise the proceeds for social and economic programmes and services in communities.</p> <p>The details of any coupon variation (such as a coupon step-up or down) or financial penalty (such as payment of a premium at maturity) payable to Noteholders due to failure by L&amp;Q to meet SPTs by a set Target Observation Rate will be individually outlined in the offering documentation of future issuances.</p> <p>Any variation of a Margin in any sustainability-linked instrument will be documented in the appropriate loan agreement and may be amended or restated.</p> <p>We can confirm that L&amp;Q's commitment to the Sustainability-Linked Bond and Loan characteristics is in line with the requirements of the SLBPs and the SLLPs.</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 2024.</li> </ul>	<p>The details of any appropriate fall-back mechanisms due to failure by L&amp;Q to meet an SPT by a set Target Observation Rate will be individually outlined in the offering documentation of future issuances.</p> <p>DNV can confirm that this is in line with the requirements of the SLBPs and the SLLPs.</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>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>L&amp;Q has committed to reporting on progress against all KPIs on an annual basis as part of its Sustainability Report, which will also be made available on L&amp;Q's website.</p> <p>The reporting will include:</p> <ul style="list-style-type: none"> <li>Information on the performance of the selected KPI, including the baseline where relevant.</li> <li>A verification or independent limited assurance report relative to the KPI, outlining the performance against the SPT and the related impact, and timing of such impact on a financial instrument performance.</li> <li>Any relevant information enabling investors to monitor the progress of the KPI.</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.</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>It is DNV's opinion that L&amp;Q has appropriately committed to reporting, and this is in line with the requirements of the criteria as set out under the SLBPs and the SLLPs.</p>
4b	Second Party Opinion	<p>Publication of any pre-issuance external review, such as a Second Party Opinion, or if relevant a verification of baselines.</p>	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>L&amp;Q has committed to conducting a Second Party Opinion (SPO) on the Framework meeting the ICMA and LMA criteria. This will include an assessment of the KPIs selected, baselines and SPTs selected, and the credibility of the strategy to achieve them.</p> <p>DNV confirms that the pre-issuance of any publication is in line with the requirements of the SLBPs and the SLLPs.</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.	Evidence reviewed: <ul style="list-style-type: none"> <li>L&amp;Q Sustainability Finance Framework 2024.</li> </ul>	<p>L&amp;Q is committed to annually reporting on all KPIs in L&amp;Q's annual Sustainability Report, which will be available on L&amp;Q's website. The Sustainability Report is verified by external auditors.</p> <p>The performance of each KPI against its corresponding SPT at a relevant target observation date will be verified by third-party auditors and reflected on a Verification Statement, which will be made publicly available on L&amp;Q's website and communicated in writing to the Principal Paying Agent and Noteholders.</p> <p>DNV can confirm L&amp;Q's commitment to verification is in line with the requirements of the SLBPs and the SLLPs.</p>